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## ***Supplement***

# **East Asia**

***Japan***

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# East Asia SUPPLEMENT Japan

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## INTERNATIONAL AFFAIRS

### **Takeshita Seeks Popularity Through Diplomacy**

*OW0604134189 Tokyo SANKEI SHIMBUN  
in Japanese 3 Apr 89 Evening Edition p 1—FOR  
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[Text] Starting with the Japanese-Italian summit talks with Italian Prime Minister de Mita on the afternoon of 3 April, Prime Minister Takeshita's busy schedule of diplomatic engagements will come into full swing. According to the schedule, the prime minister will meet with Chinese Premier Li Peng and ROK President No Tae-u. He will also tour ASEAN member countries and attend the conference of industrialized nations (the Paris summit).

With support for his cabinet falling rapidly over the so-called Recruit scandal and shaking his political foundation, the prime minister is hoping to score points in the area of diplomacy through a series of high-level talks, thus creating an opportunity for a "rollback offensive."

In the Japanese-Italian summit talks with Prime Minister de Mita, the prime minister is expected to strongly call on Italy to ease its restrictive measures on imports from Japan. The two will also discuss the expansion of exchanges in the fields of culture, science, and technology between the two countries, and will exchange and adjust their views on Soviet restructuring policies in anticipation of the debate on the matter at the Paris summit.

At the meeting with Premier Li Peng, the prime minister will find out the latest status and prospect of the forthcoming Chinese-Soviet summit talks and will exchange views on the Cambodian situation. In the Japan-ROK summit, the topics of the talks will be the situation on the Korean peninsula, with emphasis on North Korea.

Prime Minister Takeshita—from late 1987, shortly after his inauguration as prime minister, to the summer of last year—made many trips overseas. He visited the Philippines, the United States, the ROK, and Europe, and attended the Toronto summit. In August he visited China.

During all his visits overseas, he emphasized the role of Japan as "contributing to the world." At the summit, he played a leading role in proposals for the alleviating accumulated debts of developing nations. He received warm appreciation from all the countries attending the event.

The new diplomatic schedule calls for his first active participation in diplomatic activities since then, except for the mourning diplomacy conducted at the time of the state funeral for the late Emperor Showa. There is no doubt that the government and the Liberal Democratic Party, as well as the prime minister himself, want to take this opportunity to show the world and Japan once again

a "Takeshita of the world," and ride on this to win in the summer election for the House of Councillors and restore the support for the cabinet. Basic strategies are being mapped along this line of thought; thus, when the prime minister and President No Tae-u meet, they will discuss the possibility of the emperor making a visit to the ROK. They may also proclaim a new era in the relations between Japan and South Korea.

While on his tour of ASEAN countries, he might propose a new basic policy of Japan toward Southeast Asia in a tone similar to that carried in the so-called Fukuda Doctrine.

At the Paris summit, the environmental question is expected to become the central subject of talks, and it happens that the Takeshita cabinet has chosen this topic as this year's major issue to be addressed through international cooperation. Takeshita is expected to present concrete plans on contributions by Japan in this regard.

Aside from this schedule, the prime minister is ambitious about improving Japanese-Soviet relations and is looking forward to the visit of General Secretary Gorbachev. Foreign Minister Uno will be sent to the Soviet Union during Japan's holiday season in May.

### **Western Support for Territories Issue Sought**

*OW0104063389 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 28 Mar 89 Morning Edition p 2—FOR  
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[Text] Believing that the debate of views on the Soviet Union will be the center of political discussions at the industrial nations' summit meeting to be held in a suburb of Paris in July, the Foreign Ministry plans to coordinate views of the Western nations. The ministry will hold a series of political consultations with Western nations, including the Japan-U.S. vice ministerial talks scheduled for 27 March. At these consultations, the Foreign Ministry plans to explain that the Soviet Union did not change its stance toward the northern territories issue during the latest Japan-Soviet working group meeting to discuss a peace treaty. The ministry will explain to the Western nations Japan's policy of not complying with the proposed full economic cooperation unless progress is made in the territorial issue. In addition, the ministry will ask the West European nations and the United States to take a prudent attitude toward economic cooperation with the Soviet Union. Thus, the ministry plans to obtain concerted support from the Western nations for Japan's rigid views on the Soviet Union and use it as a favorable wind in negotiations with the Soviet Union.

The Japan-U.S. vice ministerial talks will be held in Washington for the first time since the Bush administration inauguration. Deputy Foreign Minister Kuriyama and Under Secretary of State Kimmitte will attend the talks. At the talks, the Japanese side will explain in detail the substance of the working group meeting. During the

Japan-U.S. summit meeting held in early February the U.S. side expressed a strong interest in the progress of Japan-Soviet relations. After the talks Mr Kuriyama will visit Britain and West Germany to attend vice ministerial consultations. The Foreign Ministry will discuss this issue with the Italian side when Italian Prime Minister De Mita visits Japan on 2 April. In April a French vice minister will also visit Japan.

The United States and Britain have supported Japan's demand for the return of the four northern islands. A Foreign Ministry source indicated the "need to reconfirm their support." The Soviet side at the latest working group meeting brought up the Yalta Treaty—which was signed by the United States, Britain, and the Soviet Union in 1945 and which called for turning over the Kurile Islands to the Soviet Union—as grounds for the Soviet occupation of the four islands after World War II. For this reason, the ministry plans to confirm the invariable position of the United States and Britain that "the Yalta Treaty was nothing but common goals expressed by the leaders of signatory nations and had no effect of turning over the territories."

In Europe, Italy and West Germany are positively assessing the restructuring being promoted by General Secretary Gorbachev. Moves to promote economic cooperation with the Soviet Union can be seen, although they have so far been initiated by the civilian sector. Italy stuck to its plan to promote economic cooperation of its own, while supporting Japan's Soviet policy when Foreign Minister Uno visited West Europe in January of this year. The same source said that "we hear voices that Italy will take action while Japan stays at home." For this reason, the Foreign Ministry plans to seek support for "Japan's policy of not separating politics from economics" at a meeting between Prime Minister Takeshita and Italian Prime Minister De Mita when the Italian prime minister visits Japan and foreign ministerial and vice ministerial talks are held between the two countries.

West Germany thinks, as Foreign Minister Genscher says: The sense of the Soviet threat has waned in the wake of General Secretary Gorbachev's proposal to cut conventional forces by 500,000. The country is opposed to upgrading short-range nuclear missiles, which this has caused disarray in the North Atlantic Treaty Organization (NATO). The Foreign Ministry plans to stress prudence in assessing the proposal, since no sign of reduction in military strength is seen in the Far East.

#### \* G-7 Finance Ministers Reach Agreement

##### \* Interest Rates Ongoing Issue

41060061 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 5 Feb 89 p 3—FOR OFFICIAL USE  
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[Text] The Ministry of Finance and the Bank of Japan judged that the agreement on policy coordination at the G-7 meeting in Washington, D.C., was useful in stabilizing

interest rates and foreign exchange markets. For the time being, the focus of the market will be on the continued downward trend of the West German Deutsche mark, which may trigger a rise in interest rates. The Ministry of Finance and the Bank of Japan are prepared to implement suitable intervention against further devaluation of the Deutsche mark, in accordance with the policy confirmed at the G-7 meeting, if West Germany requests it.

The Bank of Japan and others stressed: "We have demonstrated once again our disposition to tighten up the policy coordination system among advanced nations and have shown that Japan and the United States are always ready to exercise appropriate intervention for the sake of a stable foreign exchange market." Late last week, the foreign exchange market indicated a low dollar-yen exchange rate at the \$1 = 130 yen level, but the market was wary of buying dollars and selling yen beyond that level. "The approval of stabilizing intervention by G-7 will encourage reassessment of dollar buying and contribute to the stability of the market," was a hopeful remark, (a high-ranking officer in the Bank of Japan).

However, it is still strongly believed that the dollar will rise in the future. Since the close of the latest G-7 meeting, the Bank of Japan is closely watching effects of the G-7 stabilization agreement on yen exchange rates in the Tokyo market, which opens for business before any other major markets of the world on Monday the 6th.

One of the focuses will be the movement of the West German Deutsche mark. Despite frequent interest rate increases, the Deutsche mark has continued to weaken since last year. It is possible that West Germany will raise rates another point, a step some fear will spark a scramble to increase interest rates worldwide.

Apparently, they have agreed to work out some measures to prevent spiraling interest rates and to redouble international efforts to intervene in the matter of the softening West German Deutsche mark. A city bank board director comments: "We are asking West Germany to be cautious about raising interest rates since other nations will cooperate to prevent softening of the Deutsche mark." Monetary authorities in Europe and the United States have recently acted to intervene whenever the West German Deutsche mark drops to a level of \$1 = DM1.88. Both the timing and the scale of intervention may change in the future, according to one view.

The Bank of Japan did not execute a "reverse-intervention" at the latest high-dollar mark, neither selling dollars to help the yen, nor selling dollars to help the Deutsche mark. However, according to a prevailing perception, "It is possible that in the future the Bank of Japan will intervene on the basis of the G-7 agreement and sell dollars and buy Deutsche marks just as it did in the Tokyo and Singapore markets last July," (a higher ranking city bank official).

Financial and foreign exchange markets are suspicious of what was achieved at the latest G-7 meeting. In spite of the record long talks, the meeting merely confirmed the status quo. Analyzes (a high-ranking city bank official), "No consensus was reached among authorities of the



participating nations. They compromised to follow the traditional system, in order to avoid confrontation." Under these conditions, it is increasingly likely that the on-going high dollar trend will continue for a while.

The market reacted to an "intriguing" comment by Finance Minister Murayama who stated, "Talks on interest rates and foreign exchange standards were successful in that each country agreed on a permissible range." He had to say that because it confirmed the fact that both West Germany and the United States were tightening the money supply in fear of inflation, but the foreign exchange market had not yet adjusted to their actions. Interprets (a trading company), "The meeting suggests that Europe and the United States have no practical solutions except to intervene by selling dollars." Another scenario is entertained: The United States, trying to maintain fairly tight money management in a stable economic climate, is asking West Germany to tolerate the current high dollar for a short period, in exchange for a promise to seriously return to low dollar, high Deutsche mark efforts after inflation concerns are resolved. "They are, after all, agreeing to gain time," sharply criticizes a financial source.

Also, points out (a major insurance company), "Unless we see something that indicates a reverse in the U.S. short-term interest rates," the high dollar and an inflation alarm in Europe will continue, as will the potential for rising interest rates." Some people say the inflation-weighted policy coordination, which dates from last year's Toronto summit, has reached its limit, and an increasingly unstable foreign exchange market is anticipated.

#### \* High Dollar Criticized

41060061 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 5 Feb 89 p 3—FOR OFFICIAL USE  
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[Article by Hirata, Reporter in Washington, D.C.]

[Text] The G-7 meeting held for 3 days in Washington, D.C., appears to have ended without major troubles. The joint statement concluding the meeting said there had been no change in the strategy to promote policy coordination. However, under the surface, Europeans and Americans were furious about the high dollar, low Deutsche mark, and resurfacing concerns about inflation, while some countries expressed their concerns about the delayed correction of the trade imbalance. There was no clear prescription in sight to solve the developing nations' debt problems. Three years have passed since the Plaza Agreement. A new live ember is burning under the G-7 system.

"It was not too intense but there were several jabs" throughout the 2-day G-5 premeeting and 3-day G-7 meeting, (the Japanese delegation). The typical example is the high dollar problem. The high dollar and low Deutsche mark market was triggered by the high interest rate policy of the United States since the end of last year.

Upon adjourning, the presidents of the central banks all said, "The current foreign exchange level is within acceptable limits." In the session, however, the European forces, led by West Germany, proceeded to criticize the high dollar. Behind the high dollar complaints was the fear of resurfacing inflation. Low domestic currency pushes up import costs and raises inflationary pressures. At the end of last year wholesale prices in West Germany jumped, increasing rumors of renewed inflation.

The United States and Japan are also troubled by the prospect of rising inflationary pressures. The interest rate hike forced by Chairman Greenspan of the U.S. Federal Reserve Board was to nip inflation in the bud, resulting in high dollars and low Deutsche marks. With a backdrop of a strong global economy, developed nations are starting to play a game of hot potato, passing inflation to one another. According to those involved in the meeting, G-7 is transforming its character in the midst of these delicate conflicts of interests.

The United States makes a proposal, and Japan goes along with it. West Germany is increasingly displeased, pointing out that the U.S.-Japanese cooperation in financial matters is deepening. Some Japanese involved in the meeting proudly speak of the system as the "G-2" behind the scenes.

Japan supported U.S. financial policy: "High interest rates in the United States cannot be helped. When the deficit reduction gets under way, interest rates will come down naturally," (a source who accompanied the Finance Minister). Moreover, Japan pleased U.S. monetary officials by saying, "We will not raise interest rates for several months to come," (a source who accompanied the President of the Bank of Japan).

Previously, the Bank of Japan repeatedly sounded a warning against rising domestic prices and Japan has taken the position that "we will not commit ourselves to maintaining the current level of interest rates," (a Ministry of Finance source). Now, Japan has changed its views in favor of taking an initial role in stabilizing financial and currency markets by checking interest rates in Japan.

After 1400 on the third day of the G-7 meeting, Prime Minister Takeshita and U.S. Secretary of State Baker made an unannounced appearance. As OBs (old boys) of the G-5 and G-7 meetings, they came to see their old buddies. However, sources related to the Japanese Government pointed out, "It was an event which symbolized the nature of G-7 at this session." At the Japanese-U.S. summit meeting held the day before, the reinforced relationship between the two nations was confirmed. Coordination of currency and finance, one of the main tasks for which the two countries shared responsibility, was happily realized at the table of G-7 by Japan and the United States.

The 1985 Plaza Agreement set as its greatest goal correction of the international trade imbalance. The ammunition was adjustment of foreign exchange, which meant draconian devaluation of the dollar. As a result, the dollar plummeted from \$1 = ¥242 to \$1 = ¥120, narrowing the trade imbalance among developed nations. However, this correction of the trade imbalance has been at a standstill since the latter half of last year. "G-7 is about to face a second round of the trade imbalance correction," (an analyst of a U.S. investment bank).

Nonetheless, the U.S. production rate exceeded 80 percent, and export capacity has been impoverished. Even if the dollar drops more, it is not expected to contribute to improvement of the trade balance. There is a voice pointing to the "need to improve education" in order to raise the productivity of the United States itself, (a source related to the U.S. Congress). The problem is deep-rooted. Japan and West Germany, on the other hand, must further stimulate domestic demands and take measures for structural reforms.

"The Treasury secretary spoke of his firm resolution" regarding the improvement of fiscal problems, (Finance Minister Murayama). Yet, there is no concrete policy indicated since the new administration has just been inaugurated.

It was in November of last year, when the dollar was anticipated to drop sharply, that the present session of the G-7 meeting was first suggested. If the basic currency had crumbled, anxiety would envelop international financial markets; but on the contrary, the dollar is high now. Furthermore, the U.S. Government has just shifted its executive power to a new administration.

Mr Baker, a father of the current G-7 system, was promoted to Secretary of State, and left the G-7 leaderless. The only priority they recognize now is avoiding trouble. It seems as though the knife that operates on the basic international economic problems has been dulled.

#### \* Debt Realignment Possible

41060061 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 6 Feb 89 p3—FOR OFFICIAL USE ONLY

[Article by Hirata, reporter in Washington, D.C.]

[Text] The G-7 meeting held on 3 February spent more than half its discussion time on the cumulative debt problem, indicating the great concerns of the United States which served as chairman of the meeting. The United States ostensibly maintains, "The principles of the debt strategy established by Secretary of State Baker when he was Secretary of the Treasury will not be altered, but minor adjustments will be made." However, there is a great possibility that proposals will be made for a realignment of the debt strategy in future talks among deputy-secretary level officials.

Of the \$1,320 billion outstanding debt of developing nations at the end of 1988, a 26-percent share is held by five Central and South American nations, including

Mexico and Brazil. "The debt problem of Central and South America is a key point of the U.S. strategy," (Secretary of State Baker). However, the majority opinion is that error in the U.S. strategy has aggravated the condition.

The Baker proposal of October 1985 advocated a solution to promote the economic growth of developing nations and to expand their trade balance through economic reform, expansion of financing by international organizations, and \$20 billion in private bank loans over 3 years. However, since 1985 private loans to the 15 nations targeted by the proposal have been reduced, in terms of net financing, after deducting repayments. Baker slightly changed course in the autumn of 1987 by approving reductions in debt, for instance, by converting debt into securities; "According to the situation of the debtor nations, they can choose from various menus." On the basis of this revised approach, the United States supported conversion of the Mexican debt into securities in February 1988. However, the projected \$10 billion bid was held to \$3.6 billion. The amount of squeezed credit of the 12 major U.S. banks increased a total of \$6 billion between January and September 1988. However, it is a small increase in proportion to the total credit given to the developing nations.

The U.S. Government is beginning to lean toward "lightening the burden of banks by promoting credit squeezes as a government policy. Otherwise, an expansion of new financing will not be expected," (Treasury secretary).

In the U.S. Government "a new procedure for debt reduction" has been deliberated since last autumn presided over by Treasury Secretary Brady, among related departments and agencies such as the Department of the Treasury, the Department of State, and the National Security Council, (a source from the Department of the Treasury). According to the Department of the Treasury, "The Federal Reserve Board and Federal Deposit Insurance Corporation are reviewing the draft for any tax-related or bank administration-related problems that may block reduction of the debt."

According to one estimate, the ratio of the amount depreciated or put in reserve for bad debts to the amount of bad credit payable to banks by the developing nations is about 50 percent for West German banks, 30 percent for U.S. banks, and 10 percent for Japanese banks. The U.S. tax system is geared primarily toward reserves for bad debts, but tax regulations are quite stringent. Japan has a more severe tax system than the United States, for example, a nontaxable reserve rate of 1 percent of the outstanding loans and a taxable rate of 15 percent (beginning in March 1989).

However, if the tax system is liberally relaxed toward depreciation and accumulations in the reserve, it may wind up "solving the problem at the expense of taxpayers," to which the U.S. itself has an objection. Yet, a long-term objective must sometime be sacrificed by the



urgent needs of today. The United States is expected to request that Japan reform the tax system to ease reserves and depreciation, to accommodate the individual needs of banks, even though Japan is promoting the bank credit squeeze through the "JBA [expansion unknown] investment," a joint buyer of credit to cumulative debtor nations.

The Japanese side considers the Miyazawa initiative to be still "alive," a proposal entrusting the IMF to manage payments of developing nations' debts which have converted into securities. However, this proposal to exchange credit for debt on a one-for-one basis does not contribute to reduction of the amount of debt. The U.S. is very cautious about implementing this idea, since "it is possible that the IMF may ultimately become responsible for funds," (a high ranking official of the Department of the Treasury). Partly because of reluctance to allow Japan to take initiative in the debt measures, the U.S. Government will not easily agree to it.

President Mitterrand of France proposed: "Let us additionally create special drawing rights (SDR) for the IMF, and let the IMF put together the holdings of advanced nations and use it to guarantee repayments of principle and interest by developing nations. The United States did not show any interest in that proposal, perhaps because it smelled the real purpose for the active utilization of SDR, that is, reducing the position of the dollar, the basic foreign exchange currency.

Talks among nations directed toward the IMF provisional committee are largely expected to proceed under U.S. leadership. "The U.S. may step up the debt reduction strategy and advocate a mechanism which lets public organizations guarantee payments of interest when debts are converted to securities just as in Mexico," is a hopeful observation, (a source related to an American bank). The principles of the Baker initiative can be altered: "Public institutions won't take over the risk of private bad debts. We will respect market forces and the spontaneity of banks. The debt strategy must be decided case by case," (Department of the Treasury).

The United States has especially high expectations of Japan among the G-7 participants. European banks have already depreciated a sizable portion of the credit to Central and South America. Frankly, the U.S. Government is wondering how much Japan will lend its hand to rescue the "backyard of the United States," including financing from the Export-Import Bank of Japan and the government yen credit.

**\* New Directions for Foreign Aid Studied**  
41060049 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 20 Jan 89 p 23—FOR OFFICIAL USE  
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[Article by Nobuyuki Kasai, assistant professor, Yachiyo University of Foreign Studies: "Economic Cooperation With NIE's"]

[Text] (1) Taking up the issue of Japanese economic cooperation efforts, there is criticism which accuses

Japan of favoring Asian nations. It is a fact, however, that economic aid from Japan has been the main pillar of overall economic development in Asia.

(2) While Korea and Taiwan remain aid-recipient nations, they are currently in the process of becoming aid-supplying nations. The Asian NIE's (newly industrialized economies) can serve as the final framework in which these countries can advance to assume their role as providers of economic aid.

(3) There are two directions Japan can take in regard to providing economic aid in the context of the developing economies of South Korea and Taiwan. One is to shift the aid target to the nonproductive sectors of these countries, something which will help the Asian NIE's to eventually evolve into a group of advanced nations. The other direction is for Japan, as an aid-supplying nation, to progress in her role of economic largesse by continuing to give economic aid to other developing nations.

(4) It is necessary for Japan to establish a new framework in which to continue her economic aid efforts.

#### Rising Levels of Development

It is certainly evident that Japan is becoming one of the top economic donor nations of the world. In Japan's geographic region, the Pacific Basin nations have started on a path which is making the area the most economically dynamic in the world. Japan has heard criticism that her foreign aid favored these Asian nations, yet this criticism is ironic in light of what this aid has accomplished in the context of current economic growth in the region.

Incidentally, if economically developing nations follow the same path as the Asian NIE's, the question will arise as to how long assistance should be extended. One clear response is the argument which advocates stopping all aid, an argument which can result in the short-term "boomerang" effect in which these countries would take a protectionist stance. We must, however, examine this question more systematically and consider our current efforts as but a single link in the overall context of a cooperative economic aid policy. Let's see if we can formulate the best way to conduct the last stages of economic assistance.

It is commonly held that economic aid from one country to another is a process. Economic assistance is directly tied to the economic development of the recipient nation. At the start of its development process, a country has very poor resources and not much worth investing in. Because modern industrial technology, management methods, and other necessities for development are lacking, the economy of the country is not able to maintain a minimal level of existence for its population. Often, the country is not even self-sufficient in food production. At this point, the country depends on aid in the form of foodstuffs and basic agricultural technology.

Further aid is also required to plan and build a basic economic infrastructure in the form of industrial equipment, roads, harbors, and so on.

At this stage of the process, the areas to which economic assistance can be applied are limited. There are many cases in which economic aid becomes an increasing series of outlays due to the inability of the recipient country to repay loans or adhere to any financial conditions set by the donor.

In the next stage we see the development of a light industry based on the production of miscellaneous consumer goods, textiles, and other such items. With continuing development the steel and petrochemical industries will emerge, and this will lead to basic metal-based manufacturing industries such as machine tools, shipbuilding, and auto making which in turn will lead to the development of a heavy industry. At the same time, the domestic market for these manufactured goods grows along with an increase in the infusion of foreign investment.

The demand for aid from abroad increases in order to continue to support and expand the infrastructure. Assistance comes in the form of technical information for modernizing industry, improving communications, constructing power plants, etc. As a result of the country's growing ability to assume and service debt, certain financial conditions can be applied to the assistance transaction. Gratuitous aid is reduced while loan credits are increased.

As the level of economic development continues to rise, it becomes possible for the recipient country to procure the technology and funds for continued development through domestic, rather than international, sources. As a result of increasing direct investment in the private sector and its expanding technological and capital resources incurred as an influence from the growing industrial sector, the areas demanding foreign-based aid will steadily decline. This suggests that the stage has been reached where the country is capable of self-sustained economic growth.

Incidentally, in cases where a developing economy depends largely on foreign markets, fluctuations will strongly influence domestic markets. If an increasingly competitive trade posture allows a partial export economy to evolve into one relying predominantly on export, it could prove difficult to maintain a stable trade environment with First World nations in light of protectionist sentiments and the implementation of restrictive import policies.

There are elements in the equation which can work against the development process. Countries at a relatively low level of economic development can take a protectionist stance through the imposition of import quotas and high tariffs in order to protect a fledgling

domestic industry. More developed countries, those who have reached the stage of self-sustained growth, will find it difficult to enter these types of markets with their highly competitive goods.

In regard to extending exports within this rather severe trade environment, it becomes necessary to widen export efforts through more cooperative methods aimed at cultivating potential markets in underdeveloped regions. Because the capital and technological resources are so poorly developed in these countries, they have a great need for assistance in building industry, agriculture, and other areas of their infrastructure.

Countries which have until now been on the receiving end of the aid flow, must now work to become suppliers of aid themselves. An unconventional point of view is demanded, a view which advocates that recipients of assistance emanating from GATT policies and the IMF mount the international stage as representatives of what can be termed "newly developed regions."

If cooperative economic efforts were to be conducted along this line, countries receiving assistance from advanced nations and international institutions would progress from their position as aid recipients to an intermediate stage in which they could supply economic aid concurrently with receiving it. The final step would involve the transition to becoming a "pure" donor nation. Developing countries could progress in this manner with the ultimate goal of becoming aid-supplying nations. We can call it an "economic cooperation graduation process."

#### From Industry to the Nonproductive Sector

Perhaps we can find a new policy direction for Asia NIE's, a new position which South Korea and Taiwan can take within this type of graduated development framework.

South Korea began her role as an aid recipient upon receiving assistance from GARIOA (Government Account for Relief in Occupied Area) in September 1945. The country began accepting aid from the U.S. Economic Cooperation Administration in 1949, from the Civilian Relief Plan in 1950, and from the United Nations South Korean Reconstruction Program in 1951. Aid from the United States to South Korea continued well into the sixties but at a reduced level. In place of this dwindling aid from the United States, South Korea began receiving both unconditional and conditional aid from Japan made possible from the steady economic recovery of both countries.

The first experience of South Korea providing assistance was when Ethiopian students were admitted into the country to do research in 1967. In 1980 South Korea began providing monetary aid in the form of funds for development in Africa. This aid effort gradually widened

as the country made more funds available to the Africa Development Bank in 1982, and the Inter-American Development Bank (for Central American development) soon after.

In 1986, as a result of the implementation of plans to form a mutual cooperative investment system, South Korea established a law allocating funds for international economic cooperation, a law which went into effect on 1 July of the following year. In 1987 South Korea received requests for aid from 8 countries in regard to 16 projects. The 1988 result was their assistance to Indonesia in the form of highway construction, and aid to Nigeria through overhauling the rolling stock of the Nigerian national railway system.

Much the same as South Korea, postwar Taiwan also received economic aid from the United States, aid which extended to the latter half of the eighties. Taiwan received a first phase yen credit from Japan in 1966, a loan which came into effect that same year and which continued until 1972. Technological aid to Taiwan through the end of 1986 saw a total of 4,513 Taiwanese who had studied various technologies in Japan, and 585 Japanese specialists who had given on-site assistance to the Taiwanese. Japan implemented an enforced economic aid policy in 1988 in which \$10 billion of the budget was allocated to assist in the economic development of Taiwan.

Lately, there has been a surge of technology-oriented Japanese investment directly into the private sectors of both South Korea and Taiwan, a phenomena which indicates the beginning of an age of public and private economic cooperation between nations. From this we can see that South Korea and Taiwan, while being current aid recipients, have entered a stage of development in which they are capable of supplying aid as well.

There are two ways we can view this in the context of forming cooperative economic policy. The first is to consider the question from the side of the aid recipient. The country can make the transition to donor country status from which active participation in the formation of an international society becomes possible. The country shows a high rate of economic growth and seems to be progressing toward a standard of living similar to advanced nations. Yet, there are still many differences. For example, great inequities remain in the society, stark differences in development are apparent between large and mid-size enterprises, between national urban capitals and regional cities, and between cities and farming villages.

The developing areas of the country can make active use of foreign-based loan institutions while continuing technological development through joint research activities and information exchange programs. The less developed areas of the same country, on the other hand, need

welfare support programs to raise low incomes to acceptable levels. The protectionist "boomerang effect" mentioned earlier is further exacerbated by weak domestic markets. Economic cooperation policies targeted on low income regions are directly tied to increasing domestic demand within those regions. Essentially, the desired development graduation process reflects this type of shift from assisting the industrial sector to conducting cooperative aid efforts aimed at developing the nonproductive sector.

#### Assistance Expertise

The second viewpoint is taken from the aid-supplying side. The donor country looks for nations within its region to assume joint responsibility in creating a more international society. A mutual alliance among aid-supplying nations can become a policy toward this end. If a multitude of international constituencies can be brought to support this type of project, the framework of an organization to coordinate the efforts of nations providing assistance could be established.

For example, an assistance alliance between Japan and South Korea could have South Korea supplying all or part of the foreign investment to a third recipient country. Japan could, if necessary, supply the remaining foreign investment and a designated part of the recipient country's domestic investment. The recipient country would then be called upon to assume the financial burden of the remaining part of the domestic investment.

This new financial framework offers inherent advantages not found in economic assistance relationships between two countries. If the burden on Japan could be reduced through this arrangement, it would become possible to reduce increases in outlay. Feasibility studies have been conducted, but they must be closely tied to the financial conditions, the activation of dormant development projects, and other factors relating specifically to the recipient country.

This cooperative economic relationship also offers the advantage of allowing South Korea to learn from Japan's experience as a donor nation, with the ultimate benefit of South Korea also becoming a donor nation. Another advantage tied to this relationship lies in the potential for South Korea to expand her export markets through providing technical assistance to less developed nations, this could be gained from South Korea's experience as an aid recipient. It goes without saying that support for domestic investment reduces the financial burden on the aid-receiving nation. After aid is cutoff, the recipient country can continue to procure cheap parts, equipment, and other needed items from South Korea. The country can also import finished products from South Korea, products which reflect a narrowing technology gap with Japan.



The advantages gained by each country taking part in this scheme will outweigh the complexities involved in implementing it. This plan for Asian NIES can prove the ancient axiom that the purpose of helping someone is to eliminate their need for help. Japan is pursuing the formulation of cooperative policies which will enable aid-receiving nations in her own region to progress to the final stage in which they become donor nations themselves.

**\* MITI Considers Petroleum Futures Market**  
41060048 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 20 Jan 89p 1—FOR OFFICIAL USE  
ONLY

[Text] The Agency of Natural Resources and Energy in the Ministry of International Trade and Industry (MITI) soon will begin a detailed study to determine the possibility of establishing a petroleum futures market in Tokyo. Previously, MITI had taken the position that the timing was premature for a futures market in Japan, with its many regulations concerning petroleum. It has judged, however, that hereafter the environment will be ready for futures transactions with the relaxation of regulations administering petroleum and progress in the liberalization of the production and distribution of petroleum. It views the actual establishment of the market as "necessary to get further into relaxation of regulations such as liberalization of crude oil imports." A study group will be started soon in the Agency of Natural Resources and Energy to research conditions and problem points for the establishment of the market and list priority items. A tentative course will be decided within the year. The actual establishment is estimated to be several years away.

**Items To Be Listed Will Be Decided Within Year**

A petroleum futures market was opened simultaneously in New York and London in 1983 as a place to prevent losses from the fluctuation of crude oil prices. Petroleum-related traders, general speculators, and investment banks participate in the buying and selling of crude oil and petroleum products. Recently, the futures price has become the leading indicator of the spot crude oil and direct deal (DD) crude oil markets.

The switch by MITI to a policy of constructively studying the establishment of a futures market was decided because: 1) a market in Tokyo is necessary for the petroleum industry to hedge the risk of price fluctuations when relaxation of regulations becomes full-scale in the future, such as the liberalization of crude oil processing and abolition of suggested guidance for gasoline production, and 2) as a major petroleum-consuming nation, influence in the price structure is desired.

Many major trading companies and cost sales companies participate in futures transactions on WTI [World Trade Institute] crude oil at the New York Mercantile Exchange (NYMEX), which is the futures market in New York.

Not only those within the domestic petroleum industry, but also an increasing number of people in U.S. and European financial circles are seeking the realization of a tripolar system in which deals can be made 24 hours a day by establishing a futures market in Tokyo for various types of petroleum products and Middle East-produced Dubai crude oil, whose role as standard crude oil is increasing in the Far East region, and linking it to New York and London.

Shearson, Lehman, Hutton Commodities Japan Co (headquarters in Tokyo, president, Kazushige Sugimoto), which began a futures dealings broker business in January 1989, has made the assessment, that "in Japan, where the real demand market is strong both in quality and quantity, there is great possibility that a futures market will succeed. If created in Tokyo, a synergistic effect with NYMEX can be anticipated."

Major trading companies also say, "This can be of value not only to trading companies and the petroleum industry in Japan, but also to the petrochemical industry which uses naphtha (crude gasoline) as raw material and the electric power and shipping industries which use heavy oil as a fuel," (Marubeni Corp.). Also, there are some people who say, "It will be easier for cost sales companies to deal with a petroleum products futures market than with crude oil itself. A products market is best for reducing the risk of price fluctuations from procuring the crude oil, making the products, and selling them," (Japan Oil Transportation Co, Ltd).

**\* Official Discusses World Financial Reforms**  
41060074 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 16 Feb 89 p 3—FOR OFFICIAL USE  
ONLY

[Interview with Toyoo Gyoten, deputy vice minister of finance, on 15 February; place not given]

[Text] In a 15 February interview with the NIHON KEIZAI SHIMBUN, the Finance Ministry's deputy vice minister for financial affairs, Toyoo Gyoten, said that (1) he thinks no nation is dissatisfied with recent exchange rates, (2) with the debt burden blocking debtor nations' needed growth, new measures will be studied at the deputy finance minister level with an eye to the G-7 finance ministers' meeting in April, and (3) he senses an uncommon resolve by the United States Government to reduce its budget deficits. Also, he stressed Japan's need to proceed with structural reform considering other nations' strong expectations for stabilization of the Japanese economy and the continued economic growth Japan seeks based on domestic demand.

The substance of the interview was as follows:

[NIHON KEIZAI SHIMBUN] For several days now the dollar has been moving downward. What do you think about this?

[Gyoten] I cannot comment on what the proper level is, but since last year the exchange rate has continued to be surprisingly stable. I do not think other nations' monetary officials are dissatisfied with the movement in the rate at the present time. Since the Plaza Agreement (September 1985), there has been a broad exchange adjustment and rates have settled down to where they should be.

[NIHON KEIZAI SHIMBUN] In places like Europe inflation fears are growing stronger.

[Gyoten] There are countries where inflation fears have emerged since last summer. Yet, financial measures to nip inflation in the bud have been effective, and the world economy was extremely healthy overall in 1988. (On the business climate,) if it should overheat, we will have to take action; but up till now we have kept the situation from getting out of hand by making early adjustments.

[NIHON KEIZAI SHIMBUN] On the problem of the debtor nations, it is being reported that you will consider new measures at an international conference.

[Gyoten] The problem of late is that, with debt balances large and the burden of the principal heavy, debtor nations cannot achieve necessary domestic growth. More than ever, concerns are focusing on how this pressure can be eased. If debts are mitigated, creditors will have to take losses and there is the matter of whether that might conflict with continued future financing. How to achieve firm guarantees that financing will hereafter be effectively used is also a tough problem. We will begin studying it at the deputy minister level for the April meeting of G-7.

[NIHON KEIZAI SHIMBUN] What do you think of the United States' policies for cutting the budget deficit?

[Gyoten] In a series of meetings, the U.S. Government has shown uncommon resolve to cut the deficit. President Bush's current budget revisions, too, have cut budget goals by 100 billion yen, and we can see the government's enthusiasm. The markets (exchange markets and so on) are interested in whether Congress will exhibit a resolve as strong as the administration's in grappling with the deficit reduction.

[NIHON KEIZAI SHIMBUN] Besides that, what other topics will G-7 cover?

[Gyoten] We learned from the last meeting that all countries are showing a strong interest in structural issues. The imbalance in international trade, which had shown steady improvement from 1987 through mid-1988, has lost ground since the latter half of 1988. This, however, is attributed to such special factors as the drop in petroleum prices and the global boom in facilities investment. From the medium- to long-range point of view, no nation can avoid making internal structural

adjustments to ameliorate the imbalance. The United States needs to correct its habits of excessive consumption, and Japan will have to push further its conversion to an economy based on domestic demand.

#### Column Urges Care in International Arena

OW0904122289 Tokyo THE DAILY YOMIURI  
in English 7 Apr 89 p 4—FOR OFFICIAL USE ONLY

["Currently Speaking" column article by Yasuhiko Shibata, YOMIURI SHIMBUN staff writer: "Japan Must Take Care in International Arena"]

[Text] The annual meetings of the Group of Seven industrialized nations and the International Monetary Fund's policy-making Interim Committee just ended in Washington, with Japan flexing its financial muscle by pledging to extend \$4.5 billion in loans, in parallel lending with the IMF, to help ease the Third World's debt.

But such generosity on the part of Japan is unlikely to persuade other member nations of the IMF, particularly Western European countries, to drop their opposition to increased financial contributions by Japan to the IMF.

Topping the agenda of both the IMF and G-7 meetings were the Third World debt and stabilization of currency exchange rates. Stabilization of exchange rates recently became more urgent with the appreciation of the U.S. dollar.

Just before the Washington meetings, the exchange rate problem was handled by the United States selling dollars and West Germany's central bank buying marks.

Thus the United States has avoided the problem of one country after another raising interest rates to stem inflationary pressures, something that in the past has triggered a seemingly endless race in rate hikes.

By acting decisively on the currency problem, the United States indicated its determination to clear the way for the implementation of the so-called Brady plan (proposed by U.S. Treasury Secretary Nicholas Brady) to alleviate the Third World debt crisis.

The U.S. plan, which has become closer to realization with the moral and financial support of Japan, calls for:

- Both the World Bank and the IMF to take increased roles as world lending organizations.
- Private creditor banks to write off part of the debts owed by the cash-strapped debtor nations.
- Creditor governments to reschedule debts of the debtor nations.

Japan's pledge of \$4.5 billion in parallel loans over the next few years was made to help realize these proposals, which have not been welcomed by all.



For example, British Chancellor of the Exchequer Nigel Lawson was cool to the proposals, saying that government bodies should not have to take over the financial risks assumed by private banks.

Although Japan's loan offer was applauded by the United States, and Japan has expressed a willingness to increase its financial contributions to the IMF, some Western European countries fear that such contributions by Japan will lead to a bigger say by Japan in international financial affairs.

It seems that Japan will have to tread lightly in the world community for many years to come, both in regard to its exports and financial contributions.

**Foreign Exchange Reserves Near \$100 Billion Mark**  
*OW0604044989 Tokyo YOMIURI SHIMBUN*  
*in Japanese 4 Apr 89 Morning Edition p 7—FOR*  
*OFFICIAL USE ONLY*

[Text] On 3 April the Ministry of Finance announced Japan's foreign exchange reserve was \$99,353 million as of the end of March. This is an increase of \$523 million over the end of February, leaving only \$647 million to reach the whopping \$1,000,000 million mark.

If the present trend continues, it is quite possible that the reserve will reach the level of \$1,000,000 by the end of April. The foreign exchange reserve is the sum of foreign currency holdings and gold holdings a country maintains for use in payments to foreign countries. Japan's foreign exchange reserve has been the largest among nations of the world since January of 1988.

This amount compares with the reserves of such countries as the United States with \$4.88 million (as of the end of December), Taiwan with \$7.47 million (as of the same date), West Germany with 5.93 million (as of the end of January), and the United Kingdom with \$4.39 million (as of the same date). It is evident that Japan's position is "outstanding."

**MITI Fights To Hold Influence Over Business**  
*OW0104015389 Tokyo THE JAPAN ECONOMIC*  
*JOURNAL in English 1 Apr 89 p 1—FOR OFFICIAL*  
*USE ONLY*

[By staff writer Katsuro Kitamatsu]

[Text] Japan's powerful Ministry of International Trade and Industry, the principal architect of the nation's postwar industrial development, is locked in a heated, behind-the-scenes debate about its declining influence over Japanese business in today's globalization era.

The debate centers on how MITI can enhance its international reputation as Japanese companies move overseas while at the same time retain its traditional regulatory power over industry.

"It's not an easy task to discover a panacea for that problem," said Masahiro Maeda, a senior MITI official in charge of an official policy overhaul team that is preparing a report on the ministry's role in the 1990's. "New additional regulations would be counterproductive."

A senior banker at a major Japanese city bank added: "Previously, MITI had a responsibility to help Japanese industry grow at home and abroad. But now that Japan has a competitive edge in most fields, MITI doesn't have to take the leadership in industry anymore."

Two recent disputes over Japanese overseas investment illustrate the predicament MITI faces as it adjusts to new global corporate realities.

In January, when Toyota Motor Corp. announced a plan to produce 200,000 passenger cars a year in Britain from 1992, the move immediately was criticized in France and Italy as adding to already intense competition in the European auto industry.

Meanwhile, Sony Corp. recently touched off similar concern in the U.S. over Japan's further business encroachment when the firm bid to participate in a Pentagon-led project to develop a high definition television system.

Both incidents raised questions within MITI, the government and business circles whether the ministry is able to, or should, control Japanese corporate activities overseas.

Confessed Maeda, general manager of MITI's industrial structure division: "We need to take effective measures to prevent Japanese markets. But we have no legal means to control them outside our national borders."

For Maeda and other MITI officials, the rapid expansion of Japanese offshore investment and production is a welcome trend that will help reduce Japan's huge trade surplus with the U.S. and Europe.

At the same time, the officials are unhappy that they are virtually powerless to rein in individuals or corporations that threaten Japan's image or overseas expansion by overly aggressive real estate purchases or insensitivity to their new surroundings.

**"Administrative Guidance"**

Until recently, MITI often cleared difficulties in its policy execution through "gyoseishido," or implicit administrative guidance, to Japanese companies.

Companies usually acquiesced to MITI requests, in part because many of their senior executives were retired MITI officials. That practice, called "amakudari" or "descent from heaven," is today less common than a decade ago.

Given the close relationship between the ministry and business, gyoseishido worked as well as any law. On the trade front, for example, MITI controlled Japan's exports of steel products, automobiles, machine tools and semiconductors by asking for "voluntary" restraint.

Last spring, however, gyoseishido was challenged when the General Agreement on Tariffs and Trade determined that administrative guidance to monitor export prices of Japanese semiconductors violated GATT fair trade rules.

In effect, the GATT said it is unfair and unreasonable for the Japanese government to regulate Japan's internationally marketed semiconductor prices.

"We believe our gyoseishido is still effective in many areas. But it may not work internationally when we are required more transparent policy from our foreign trading partners," said a senior MITI official.

#### No Breakthrough

To answer thorny questions over what controls are needed to harmonize Japanese offshore activities with foreign countries, the ministry last year set up a 17-member advisory panel of industry leaders, scholars and economists. The panel is scheduled to wind up its nine month debate this June and to issue policy proposals to the ministry.

However, according to panel members, it won't be easy for MITI to change its policy course.

For one thing, the ministry may be unable to set new regulations on foreign investment projects, because doing so may slow the growth of Japan's global business activities.

Ministry officials also worry that such curbs would run counter to international calls at the GATT and the Organization for Economic Cooperation and Development to further liberalize cross-border capital transfers.

Further, as Japan's business network crisscrosses national boundaries, the ministry is less able to exert influence over Japanese companies as strongly as it did between 1950 and 1980.

"If our ministry moved to regulate Japanese subsidiaries in foreign countries, it would violate the sovereignty of the local government," said a MITI official who supervises Japan's machine tool industry.

In fact, a U.S. dispute over Japanese machine tools reflects the dilemma facing MITI trade policymakers.

To avert trade friction, MITI encourages Japanese machine tool companies to shift production to the U.S., while urging them to voluntarily curb exports from Japan.

However, their active production and sales in the U.S. have begun to vex American techno-nationalists, who regard numerically controlled machine tool technology as vital to U.S. national security interests.

"If it were a matter of exports, we could set some rules on them to forestall friction. But we cannot do so on offshore production because Japanese companies in the U.S. are legally Americans," the MITI official said.

#### Firefighter Role

To some critics, MITI's relatively "laissez faire" stance on Japanese offshore investment reflects a decline in its influence over Japanese industry.

"The decline has been in line with the deregulation and international expansion of Japanese industry," which MITI itself has been pursuing, said Toshimasa Tsuruta, professor of economics at Senshu University. "The era of Japan, Inc., in which Japanese industry achieved remarkable growth under MITI's strong leadership, has gone."

Motoshige Ito, associate economics professor of the University of Tokyo and a member of MITI's advisory panel, agreed that changes in the business environment demand new responses from the ministry.

"It may be impossible to forestall criticism against Japanese companies overseas" because the scale of offshore activities has been expanding beyond MITI's control, he said. "Rather, the ministry should play the role of a firefighter, who tries to minimize damage when a fire breaks out."

Ito called on MITI to establish "a place of dialogue," where the ministry could quickly discuss firefighting measures with foreign governments.

MITI officials themselves sense the need for change in their international trade role.

"What we should do is not to tighten regulations but to take soft-touching approaches," said an official at MITI's ministerial bureau, who is in charge of planning the ministry's policy concept for the 1990's.

For example, the official said, the ministry is considering tax exemptions for donations made by Japanese companies in foreign countries so that their subsidiaries are welcomed by local communities.

## United States

### Editorial Notes U.S. Ambivalence in FSX Issue

OW0704114589 Tokyo THE JAPAN TIMES  
in English 5 Apr 89 p 18—FOR OFFICIAL USE  
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[Editorial: "The FSX Issue and Ambivalence"]

[Text] The American debate over U.S.-Japan codevelopment of the FSX support fighter plane and the Japanese reaction to this debate have both demonstrated passion in a situation where prudence was needed most.

U.S. Secretary of Commerce Robert Mosbacher and a number of prominent American congressmen have criticized the November 1988 agreement whereby Mitsubishi Heavy Industries (MHI) and General Dynamics (GD) would jointly develop a new plane based on GD's F-16. They argue that the United States will be giving away technology which could help MHI to become a competitor in the commercial aircraft industry.

This criticism reveals a profound misunderstanding of the domestic political situation in Japan. As far as Japan was concerned, the only viable alternative to codevelopment originally was indigenous development—not the import of U.S. aircraft. In essence, the Americans are pushing for an alternative that was rejected 2 years ago.

In fact, Japan only reluctantly agreed to codevelop in the first place. MHI and others had prepared for years, both in terms of political lobbying and technological development, so that they would be in a position to build their own support fighter.

Needless to say, indigenous Japanese development would seriously threaten progress in U.S.-Japan defense cooperation as a whole. If the U.S. pushes further, however, Japan might accept the alternative of importing U.S. F-16s this time, but at the same time it would step up efforts for indigenous development. The result of all this will be that in the end Japan will have a weapons system which is different from that of the U.S.

This will certainly be a disservice to the Japan-U.S. security arrangement. And such strategic factors must always be taken into consideration and must always be weighed against economic and other relevant factors.

U.S. President George Bush decided to support the FSX deal on March 15, but his administration is insisting on tighter controls on U.S. technology exports involved in the accord. Meanwhile, the Japanese Government has hastily signed—mainly for budgetary reasons—a contract with MHI for design work on the FSX on the assumption that the remaining difficulties will be ironed out soon.

Even if the matter is settled quickly, however, some Japanese observers warn that U.S. management of the issue will leave long-term "scars." In particular, they feel that the U.S. Government may no longer be trusted to come through on the commitments it makes in negotiations with Japan. But at the same time, they are critical of the Japanese Government for signing a contract with MHI before the bilateral problem is resolved.

What the Japanese backlash seems to have missed is the fact that disputes within the U.S. Government are an inherent part of American politics, and by no means reflect a lack of commitment to overall U.S.-Japan relations. In fact, the U.S. commerce secretary was more concerned with negotiating the division of labor with the Department of Defense than he was with the particular issue of the FSX. Although his timing was poor, his point is actually quite valid in the eyes of Americans: the Pentagon needs to respond to commercial as well as to security concerns. And this means that the Department of Commerce and the U.S. trade representative will have a bigger voice in defense-related issues under the Bush administration than under the administration of former President Ronald Reagan.

U.S. congressmen may continue to speak out on the issue, but they seem unlikely to really pose a threat to the agreement. In a similar previous case, U.S. congressmen harshly criticized the sale of the sophisticated Aegis air-defense system for ships to Japan, but in the end they did not block the sale.

The U.S. Government is now more than ever ambivalent in its policy on Japan-U.S. security relations. While the Americans have consistently pushed for greater defense spending over the past 10 years, some in government agencies and in Congress are now concerned that Japan may be getting too strong. For Tokyo, this ambivalence should be seen as a blessing more than as a curse. It now appears that Japan can dispassionately observe the evolving debate in Washington, without having to worry quite so much about a U.S. consensus to pressure Japan to rearm.

### Industries Concerned About FSX Negotiations

OW0104063089 Tokyo ASAHI SHIMBUN  
in Japanese 30 Mar 89 Morning Edition p 8—FOR  
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[Text] The Defense Agency has decided to formally conclude a contract with Mitsubishi Heavy Industries, a primary contracting enterprise, within this fiscal year. The final settlement of the Japan-U.S. negotiations on the joint development of the FSX will be carried over to the next fiscal year. Commenting on this, Takaaki Yamada, vice president of Mitsubishi Heavy Industries, said: "I feel relieved. Under the guidance of the government, I want to make this Japan-U.S. joint project a success." However, amid reports that the Japanese side made substantial concessions at the negotiations despite an agreement signed by the governments of Japan and



the United States, other industries are increasingly impatient and discontent, asking: "Will Japan be able to continue its lead?" The industries believe that the Japan-U.S. friction will not be confined to the FSX issue, and that further intensification will be unavoidable in the future. They are increasingly concerned about this.

The details of the Japan-U.S. negotiations are not known. However, it is said that the U.S. side has asked the Japanese side: 1) for more than a 40 percent share of the work during the production stage; 2) to restrict the diversion of computer software used to control the maneuverability of aircraft and weapons for civil use; and 3) to guarantee the transfer of developed high technology to the United States.

Regarding the work share, Mitsubishi Heavy Industries thinks that "although the high work share on the part of the U.S. side at the developmental stage of remodeling the F-16 manufactured by General Dynamics could not be helped, the rate on the part of the Japanese side should increase during the mass production stage." If the U.S. side controls more than 40 percent of the work at the mass production stage, the amount of work on the part of the Japanese side will decrease. The industries indicated that this would have a negative impact on cost effectiveness.

Computer software is the weakest point in Japan's technology for developing aircraft. Industries are shocked at the fact that the transfer of accumulated technology in this field to civilian use is being "blocked."

Another thorny issue in the Japan-U.S. friction as seen by the FSX issue regards high definition television (HDTV), which is called "next generation television." This type of television is under study not only for use at home, but for applications to defense purposes in the 1990's. Leaders of major electronics makers indicate that the United States lags behind Japan in developing HDTV technology by between 5 to 6 years. For this reason, one bill after another has been introduced to U.S. Congress to expedite the development of HDTV. A situation similar to the FSX issue is surfacing in the United States in regard to this matter.

#### **\* New Era for Financial Investment in U.S.**

41060076 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 18 Feb 89 p 21—FOR OFFICIAL USE  
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[Article by Seikei University Assistant Prof Yoshikazu Shishido: "Advancement Strategies Toward the United States by Financial Institutions Necessary To Form Corporate Group by M&A, Separate Company, etc. 'Employment of Local Staff' More Necessary"; first four paragraphs are unattributed abstract of article]

[Text] 1) Financial institutions' direct investment in the United States, coming from an era of having double management of branches and local companies, has come to an era requiring the plotting of organizational strategies, including separate companies, in order to access new areas.

2) Because of the expansion of sales areas resulting from the trend of securities being handled by financial institutions, and because of the necessity of creating financial networks, formation of parent company/subsidiary relationships (corporate groups) has become inevitable.

3) Both M&A's (corporate mergers and acquisitions) and establishment of separate companies have functions in common, such as forming parent company/subsidiary relationships, but separate companies cannot be expected to have the synergy effect by which heterogeneous partners complement and learn from each other, while postacquisition strategies, such as organizational management, etc., are difficult in M&As.

4) Whichever option is to be taken, the key factor is how to harmonize the securing of profits of scale and profits of diversified management and respecting the subsidiary's autonomy.

#### **Synergy Effect in JV's Can Be Expected**

For direct overseas investment, there are three options in organizational form: acquisition of a company (M&A), working with a partner (joint venture), and independent expansion to overseas markets (100-percent subsidiaries). These options are also the same for financial institutions directly investing in the United States.

Characteristics of financial institutions' direct overseas investment, as compared to those of the manufacturing industry, were that without exception, in the past major city banks and long-term trust banks employed the double management approach, establishing branches and local companies overseas (100-percent subsidiaries). Now they have entered the era of plotting organizational strategies, including the "separate company" concept, which strive to gain access to new business areas arising from the trend of securities being handled by financial institutions.

This article examines the organizational strategies taken by Japanese financial institutions, especially Japanese banks, in the United States, based on a survey conducted in the United States last March.

M&A, which is the first option taken by Japanese banks for direct investment in the United States, is divided into the following three patterns:

The first pattern is the acquisition of banks which have a strong financing capability. For instance, the Bank of Tokyo acquired Southern California First National Bank (currently California First Bank), Sanwa Bank acquired Golden State Bank, Mitsui Bank acquired Manufacturers' Bank of Los Angeles, etc.

The second pattern is the acquisition of banks that excel in their operation, aimed at advancing especially into the middle market (financing small and medium-size companies). Examples of this are seen in the acquisition of Walter Heller by Fuji Bank, and the acquisition of Union Bank by California First Bank (i.e., the Bank of Tokyo).

The third pattern is acquisition in preparation for the bank's advance into the area of securities. As examples, Industrial Bank of Japan acquired Henry Schroder, Sanwa Bank acquired Brophy, Gestal, Knight & Co., and so on.

The second option for advancing into the U.S. market is the joint venture (hereafter referred to as JV).

In the manufacturing industry, JV's have been extensive on a global scale, since they hold the possibility of attaining a large synergy effect (multiplying effect) through the partners complementing each other's strengths and weaknesses or through their learning each other's know-how.

So far, however, financial institutions' JV's have been primarily with developing countries, and the majority have been made for the purpose of bypassing foreign capital regulations. JV's between financial institutions in advanced countries have been mostly limited to JV's in leasing and investment counseling and by banks advancing into the securities sector, while JV's in the areas of financial institutions' primary operations were rare.

Next, in the third option—entering a new area independently—there is a way to establish a so-called "separate company," instead of expanding the business activities of the local company.

Although quite a few Japanese banks use M&A's to access securities businesses in the United States, the Bank of Tokyo and Mitsui Bank have been opting for establishing separate companies. Also, some have advanced into areas in which JV's are often used, such as leasing, investment counseling, etc., by establishing separate companies.

By the way, although it is a little off the topic of the three options mentioned above, cases of minority financing (participating in providing capital) have been noticeable. For instance, Sumitomo Bank financed Goldman, Sachs & Co., Nomura Securities did the same for Wasserstein, Perrera & Co., etc.

The trend toward deregulation (easing of financial restriction) and re-regulation (especially regulation of the ratio of owned capital) is prompting banks to participate in securities. Combined with various new financial products, banks' product lines (sales areas) have been expanding daily, and each area has become highly specialized.

However, there are two problems which banks face when entering new areas through expanding their own business activities.

#### **Possibility of Undermining the Community's Awareness**

First, there is a great possibility, peculiar to financial institutions, of causing a conflict of interest among clients.

One of the major reasons that Japan and the United States separated institutions engaged in banking from securities was to avoid this problem of conflicting interests.

In Europe, the Universal Bank (a comprehensive financial institution) has already been approved and it has been said that the problem of conflicting interests is avoidable by the so-called Chinese Wall (information barrier). However, it has been questioned just how much information exchange can be cut off within the same company.

In addition, due to the expansion of product lines, the coexistence of various staff in various occupations within the same organization makes it difficult for a company—at least in the case of a Japanese company—to maintain its organizational integrity.

Especially when the same salary system cannot be maintained within the organization, there is a possibility of undermining the employees' appreciation of the company as a community, which can be said to be the key to the so-called Japanese management style.

Therefore, when Japanese banks try to enter new areas, it is wise for them to establish subsidiaries in order to systematically secure the Chinese Wall and also to maintain organizational integrity.

Reflecting on the era of internationalization in finance, both major banks and securities firms have been promoting the formation of a global financial network.

What is being pursued here is the realization not only of the profits of scale (economies of scale) but also of the profits of diversified management (economies of scope). For this, of course, it is necessary to form a global financial network (corporate group).

Because of the above reasons, parent company/subsidiary relationships can be said to be inevitable for financial institutions.

All three options mentioned above can meet the objective of forming parent company/subsidiary relationships. So, what are the advantages and disadvantages?



First, compared to M&A's and JV's, one of the disadvantages of a separate company is that profits arising from synergy cannot be expected. The necessity of learning the know-how of U.S. financial institutions is greater, in the financial industry's direct investment in the United States, contrasted to that of the manufacturing industry. In this sense, M&A's and JV's provide a short cut compared to the separate company.

However, as I mentioned above, financial institutions have surprisingly not utilized JV's. Especially, there are few JV's involved in financial institutions' principal operations.

One of the major reasons for this is that financial institutions have difficulty in maintaining the know-how which becomes the basis for bargaining leverage (a negotiation weapon), allowing parent companies to get along with each other.

Therefore, JV's of financial institutions are limited to areas which require special know-how, such as leasing, investment counseling, etc., and also which are difficult for major companies to access.

#### **Making Strenuous Effort To Cope With Existing Organizations**

Certainly, M&A's are often used. It is safe to say that M&A's are best used when a financial institution wants to rapidly expand its branches, to say nothing of expanding into new areas.

The retail sector, which targets general clients and others, can be said to be the backbone of banking. However, it takes time for a financial institution to create branches on its own, since it needs to obtain approval from the federal or state governments each time it establishes a branch.

Of course, in the case of M&A's, there are very complex laws and regulations, including the bank's holding company law. But an attractive aspect is their ability to obtain extensive branch networks all at once in California and other areas where retail business is active.

However, since an M&A inherits the existing organization, the parent company often makes strenuous efforts to adjust after the acquisition. In other words, there is a problem with how to use the existing organization and staff of the company acquired.

As countermeasures to be considered, one method is to enforce all of the acquiring company's policy, while the other method is to allow considerable autonomy of the company acquired.

The choice of policy after acquisition is an extremely important issue, involving how to harmonize securing profits of scale, profits of synergy, and respecting the autonomy (subsidiary's autonomy), as well as involving the problems of transferring Japanese-style management.

At present, each bank continues to grope in various ways, but, in general, the majority of Japanese banks have chosen the latter policy, which allows for considerable autonomy.

In this respect, although a separate company cannot expect the profits arising from synergy, it does not have to think about a partner, so that there is no need to worry about either the internal conflicts which occur with JV's or being caught by existing organizations as happens with M&As. In this sense, a separate company is more suitable when a straight and steady overseas strategy is to be developed.

For promoting the internationalization of Japanese financial institutions, it is necessary to closely relate the movement of Japanese money and the opening up of overseas local markets. The determining factor for success or failure of a financial institutions is the timeliness with which it can serve clients, and it is said that increased employment of "local staff" is required to open up local markets.

Whatever option a financial institution takes for its direct investment in the United States, there is no doubt that issues to be solved from now on include how to harmonize the securing of "profits of scale" and "profits of diversified management" to form a global financial network, and how to respect the autonomy of the subsidiary that is necessary for employment of local staff.

#### **\* Reconsidering Voluntary Export Restraints**

41060077 Tokyo *NIHON KEIZAI SHIMBUN*  
in Japanese 20 Feb 89 p 19—FOR OFFICIAL USE  
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[Article by Kobe University Prof Yoshio Ohara]

[Text] 1) In cases where domestic industries suffer serious harm because of a rapid increase in imports, the General Agreement on Tariffs and Trade (GATT), Chapter 19, Article 1, allows an importing nation to adopt urgent import restriction measures of a degree and for a period of time necessary to relieve the harm.

2) Based on this international obligation, the Trade Act of 1974 also limits the maximum period of a domestic industry relief measure to 8 years, and makes it compulsory for domestic industries to make positive adjustment efforts to compete with the imported goods.

3) Nevertheless, it has been decided that the voluntary restraints on Japanese car exports to the United States will be continued into their 9th year. Although the real

goal of offering relief to U.S. industry was reached long ago, these voluntary restraints have a goal of a different nature, i.e. to prevent the augmentation of the trade surplus with the United States. Also, a bill was recently introduced in the U.S. Senate seeking the extension of voluntary restraints on exports to the United States by major steel-producing countries.

4) The improper use of voluntary export restraints, such as the above, must be abandoned immediately, because they are against the regulations and spirit of GATT and the Trade Act of 1974.

Seeking free and multilateral trade, GATT, in Chapter 11 Article 1, forbids in principle regulations on the quantity of imports and exports.

However, as an exception, in cases where domestic producers would suffer serious harm because of a rapid increase in imports, the importing country is allowed to take urgent import regulation measures of a degree and for a period of time necessary to prevent and relieve the harm. This is permitted by GATT Chapter 19 Article 1.

At the GATT general convention in 1984, a report was adopted which agreed on the need for the following: 1) to keep the period of [urgent import regulation] measures to a minimum, and to make every effort to avoid their extension; 2) to ease the degree of regulation year by year; 3) to objectively examine the adequacy of each country's [urgent import regulation] measures.

The Trade Act of 1974 sets forth the following, based on GATT obligations (the same, also, with the new trade act): 1) the maximum duration for relief measures is set at 8 years; 2) in case the relief period is longer than 3 years, a drastic reduction measure must be taken on the import regulation after that period; 3) the U.S. International Trade Committee (ITC) is assigned to supervise and see that positive adjustment efforts are being made so that the domestic industry can compete with imported goods. In case such adjustment efforts are not being made or the effectiveness of the relief measure is diminished because of changes in the economic situation, the President [of the United States] can reduce or terminate the measure.

In light of the above regulations in the GATT and the Trade Act of 1974, how should we view the extension of the voluntary restraints on Japanese auto exports to the United States and the voluntary restraints on steel exports to the major [steel] producing countries?

When the rapid increase in Japanese auto exports to the United States became a problem in the past, restrictive measures were taken for 3 years to see if there was any causal relationship between that and the depression in the U.S. auto industry.

Because of this regulation of [Japanese] exports, competition from imported autos decreased, and the U.S. auto industry made a strong recovery after 3 years.

Meanwhile, although American consumer demand for Japanese cars increased, their export to the United States was restricted, and the average sales price for a Japanese car in the American market in 1984 rose by 27 percent compared to that in 1981. Domestic manufacturers then jumped on the bandwagon and the market price for domestic autos was increased by 23 percent also.

Accordingly, in May and June of 1984, former U.S. Commerce Secretary Brock and anti-trust authorities made the statement that it was not necessary to extend the export restraints. Also, in March 1985, former President Reagan stated that he did not wish the restraints to continue.

#### **Export Restraints Made a Mere Formality as a Result of the Rapid Appreciation of the Yen**

Nevertheless, the Japanese Government has continued the restraints for fear that if they were to be abolished, exports of Japanese cars to the United States would rapidly increase, adding to the U.S. trade deficit and further aggravating trade friction.

Since then, in addition to the loss of the Japanese cars' comparative advantage in the American market owing to the rapid appreciation of the yen, the increased local production [of Japanese cars] (expected to reach the 2 million level by the early 1990's), has necessitated an adjustment in the quantity of exports to the United States. A situation thus arose in fiscal years 1987 and 1988 in which the export limit of 2.3 million units was not reached. On that point, one would have to say that the restraint of exports to the United States has turned into just a meaningless formality.

If voluntary restraints on exports were to be continued under circumstances in which there was no longer a need for the original relief measure, it's possible that the result might not be just an export cartel, but a production cartel as well.

This can be seen from the following facts: On 22 July 1987, four influential U.S. senators, in their correspondence to former Prime Minister Nakasone, demanded that cars produced by Japanese automakers locally [in the United States] be included under the voluntary export restraint totals. And again, at the end of 1988, the U.S. Auto Workers Union (UAW), in their correspondence to former Minister of International Trade and Industry Tamura, demanded that based on parts procurement ratios, two locally manufactured Japanese cars be considered as one made in Japan car and counted in the Japanese export quota.

Judging from both the side remarks (a judge's explanatory statements not directly relevant to a ruling) made by Judge Gerhard Gesell and the Guidelines for Executing Anti-Trust in International Business Activities announced by the Anti-Trust Bureau of the U.S. Justice Department on 10 November 1988, one would have to say that a mixed export and production cartel would be a violation of anti-trust law to a greater degree than would a pure export cartel.

Because the voluntary restraints on Japanese auto exports to the United States constituted a measure taken by the Japanese Government, and not based on the Trade Act of 1974, the President of the United States cannot decide if the relief measure should be reduced or terminated because of the changed situation.

Yet, the voluntary restraints on exports to the United States were implemented in place of relief measures specified in the Trade Act of 1974, because the ITC had decided that the issue of Japanese cars did not fulfill the requisites of the said trade act. So long as that is the case, voluntary export restraints at least should be carried out in harmony with the spirit of the trade act.

Because Article 201 of the Trade Act of 1974 limits the maximum period of the relief measure to 8 years, it is a violation of the spirit of GATT and the Trade Act of 1974 for the Japanese Government to continue voluntary restraints on exports to the United States.

Next, voluntary restraints on steel exports to the United States by the major steel producing countries have been frequently implemented, the first being 1969-71, the second 1972-74, and the third 1984-89. Also, a bill was introduced to the U.S. Senate this past 8 February designed to give the president authority to extend the voluntary restraint agreement, which will expire this September, for 5 more years.

The U.S. Steel Association claims that while the depreciation of the dollar is contributing to the recovery of [U.S.] international competitiveness, the extension of voluntary restraints on [foreign] exports [to the U.S. market] is necessary for rebuilding. Also, the senators who introduced this bill stated in a press conference that because the European Community (EC) gave \$40 billion in aid to its steel industry in the 1980's, and since each [EC] country is engaged in unfair practices such as dumping, the extension of voluntary export restraints on exports to the United States is necessary for the rebuilding of the U.S. steel industry.

In opposition to this bill, on the same day, 189 U.S. steel user companies organized a coalition against the extension of voluntary export restraints. The steel users are trying to develop a movement vis-a-vis the U.S. Government and Congress in opposition to extending the voluntary export restraints.

#### Views for Abolition of Restraints Arise Among Users

A representative of the user industry stated in a press conference that the extension of the export restraints would have a seriously adverse effect upon the international competitiveness of U.S. production industries in the 1990's, and that export restraints should be abolished at the expiration of their term in September of this year.

In cases where the U.S. President determines whether import relief measures should be taken for a domestic industry, or whether a measure once given should be terminated, the Trade Act of 1974 contains a regulation specifying that other factors must be taken into consideration, such as the degree of effort toward positive adjustment put forth by the concerned industry in order to compete with imported goods, and the influence of the measures implemented on consumers and the competition in the domestic market.

The U.S. steel industry is trying to get a lift from the recent depreciation of the dollar and expand its exports. However, up until now, producers such as USX [U.S. Steel Corp.] had been just sitting pretty on their monopolies, and made no adjustment efforts.

Under these circumstances, such frequent and easily given relief measures may harm domestic producers' desires for self-recovery once they have lost international competitiveness. For this reason, a strict implementation of the Trade Act of 1974 is desired.

At any rate, it is very remarkable that the user industries of the products which are the subjects of voluntary export restraints to the United States have united themselves for the first time and started a political movement. This reveals a sense of crisis concerning the [possible] adverse effects of an import relief measure for steel, which is a basic material, upon the international competitiveness of the production industries as a whole, including the machinery industry. As a movement against easy import relief, the success or failure of these user groups should be watched.

It is safe to say that there is a need to reconsider the improper use of voluntary export restraints, which go against the regulations and the spirit of GATT and the Trade Act of 1974, in other words, the extension of the voluntary export restraints on Japanese cars to the United States, and voluntary export restraints to the United States by the major steel producing countries, including Japan.

#### Restraint To Include Iron, Steel

OW2903012489 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 25 Mar 89 Morning Edition p 1—FOR  
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[Text] The government has firmed up a plan to propose to the United States continued self-restraint (in line with the Japanese and U.S. iron and steel agreement) on the



export of iron and steel to the United States even after the agreement expires at the end of this September. Ministry of Trade and Industry Minister Mitsuoka will inform the U.S. Government of this decision during his scheduled visit to the United States in late April. According to a government source, Japan plans to propose extending the term for about 3 years, on condition that the current export quota will be maintained. As Japan's trade surplus remains at a high level and the newly industrializing economies have rapidly caught up with Japan, the iron and steel industry circles have decided that it would be more profitable to continue the agreement. However, since the United States intends to review the voluntary restraint agreements it has signed with various countries, the situation remains questionable as to whether the current export quota for Japan can be guaranteed.

According to the sources concerned, Japan and the United States plan to hold working-level consultations on the agreement between Japanese and U.S. iron and steel companies in May, following Minister Mitsuoka's visit to the United States. It is observed that the consultations will focus on Japan's export quota and the term for extension if the two sides should agree on extension.

The U.S. voluntary restraint agreement went into effect in October 1984 for a 5-year term. Based on this agreement, the United States has signed bilateral agreements with various countries similar to the one signed between Japanese and U.S. iron and steel companies. According to the U.S. regulations, 18.5 percent of the "apparent consumption amount"—that is, the amount of domestic production plus the amount of imports, minus the amount of exports—is allocated to foreign countries, with Japan's export quota accounting for 5.8 percent.

President Bush stated his support for continuing the voluntary restraint agreement during his presidential election campaign. However, U.S. Secretary of Commerce Mosbacher has stated his intention to review the voluntary restraint agreement's term and restudying export quotas for various countries.

Japan plans to request maintaining the 5.8 percent quota, although it failed to fulfill this quota in 1988. While Japan was allowed to export 5,600,000 tons, its exports reached only about 4,100,000 tons. The U.S. side will probably request Japan to reduce its export quota on the basis of last year's actual exports.

**LDP Dietmen Polled on Bilateral Issues**  
OW0704090389 Tokyo THE JAPAN TIMES  
in English 5 Apr 89 p 17—FOR OFFICIAL USE  
ONLY

[Excerpted and translated from a special report, "Rising Nationalism" in 7 Mar issue of AERA, a weekly published by ASAHI SHIMBUN; results of the poll were obtained by sending a questionnaire to the 298 LDP Lower House members and 144 LDP Upper House members with follow-up interviews in person or by phone over a 4-month period from December 1988 to February 1989; 105 dietmen responded.]

[Text] The Reagan-Bush switchover in the United States seems to be reinforcing the wave of expectations for a

further easing of East-West tensions. When it comes to future ties between Japan and the U.S., the two allies are saddled with unending conflict and signs of rising nationalism. Shortly after George Bush won the presidential election, the ASAHI SHIMBUN weekly AERA conducted a poll (run in the March 7 edition) of Liberal-Democratic Party (LDP) Diet members to probe their attitudes on the future of Japan-U.S. ties. Of the 442 LDP legislators polled, 104 responded. These pollees also talked to AERA about bilateral friction, defense and the Japan-U.S. alliance in a series of follow-up interviews.

Not surprisingly, opinions varied, though staying more or less within the framework of mainstream LDP thinking.

#### Self-Confidence Shows

Prime Minister Noboru Takeshita told Bush during his trip to Washington last February, "No country can take over America's role of leadership in the world." In the AERA poll, however, LDP lawmakers were more sanguine. On the issue of bilateral friction, one single message stood out among the pollees: "The era of American dominance is over."

Underlying that message was a strong sense of self-confidence among those LDP legislators who responded to the poll, a confidence buttressed by the emergence of Japan as an economic superpower and the largest creditor nation in the world.

There were even those like Takao Sato, a Lower House member, who apparently has in mind a worst-case scenario for the U.S. economy. He suggested that Japan should start thinking of "risk management regarding the U.S."

Another Lower House member, Taro Nakayama, said explicitly that for Japan, competition no longer comes from America, but from Southeast Asia.

To be sure, those were extreme opinions. Many simply gave textbook answers when asked about the cause behind America's twin fiscal and trade deficits, citing unbridled Japanese exports and Japan's foot-dragging in opening up its own markets.

Still, part of the criticism was also directed against the U.S.:

"The American people are individualistic, and their lifestyle is centered on their families. They also like their leisure time. They don't really work hard enough," commented Ichiji Ishii, an Upper House member.

Shigeru Ishihara, another Lower House member, went a step further, pointing to American policy failures. "If the American Government chooses to cut taxes without initiating adequate measures to boost industrial revival, of course the consumers will spend their money on imports," he said.

Keijiro Murata, a former minister of international trade and industry, was indignant over America's highhandedness in its dealings with Japan. "It's time they recognize that Japan is their most important partner," he said.

#### Some Share Blame

Not all the pollees were content with U.S. bashing. Some see most of the fault as stemming from the Japanese side. Shuji Kita, an Upper House member, was one. He cited three reasons behind all the economic conflict: 1) Japanese corporate greed, 2) inadequate Japanese efforts in promoting economic assistance and 3) cultural differences including different distribution systems.

As for the future, an overwhelming majority of those polled said they were worried about an escalation in conflicts. Few saw any easy solution to the dual U.S. deficits, or Japan's large trade imbalance.

"The Bush administration has no choice but to take a hard line in foreign policy, if only to appease the majority opposition in Congress. Japan, as we know, is an easy target," said Lower House member Jin Murai.

#### Anti-U.S. Undercurrent

Many also believed that bilateral conflicts would increase in complexity as they moved from trade to other areas like investment. "I guess this year we will be under strong pressure to open up our farm market," said Lower House member Toru Furuya.

Would Japan be forthcoming? Responded fellow Lower House member Hajime Ogawa, "We are right in the middle of a restructuring process, and I don't believe we are in a position to oblige the Americans."

Others saw the Japan-U.S. trade conflict in a larger world context. Said Lower House member Norio Imaeda, "Both the U.S. and the Soviet Union have found that military outlays have choked their economic growth. It is this common problem which has pushed them toward arms control. Therefore, the pace of improvement in U.S.-Soviet relations is likely to have a profound effect on economic friction between Japan and the U.S."

When asked what can be done to defuse the economic dispute with the U.S. however, LDP legislators mostly want the U.S. to change its ways. Said Upper House member Mayumi Moriyama: "If the Americans always think they are right, then the friction is bound to intensify."

Complained Akira Amari, another Lower House member: "Americans still don't seem to realize that their power has relatively weakened. We have been sounding this warning again and again but the Americans don't seem to listen."

Some LDP lawmakers were more sympathetic toward America, noting that Japan must honor its commitment to increase U.S. imports by further opening up its markets. Such views, however, were noticeably in the minority.

The majority view was that the U.S. must chop its defense budget if it is to bring down the twin deficits. "There is no way for the Americans to boost their competitive edge unless they cut defense spending and send their bright people into private industry," offered Taro Nakayama. Fellow Lower House member Misoji Sakamoto agreed: "The Americans should shift part of their military spending to technology development in the private sector."

Thus the poll showed a surprisingly strong anti-U.S. undercurrent within the LDP, giving rise to a sense of crisis among some younger LDP lawmakers.

#### Danger of Nationalism

Lower House member Koji Kakizawa, a former Ministry of Finance bureaucrat, called on the U.S. to exercise "self-restraint" in its dealings with Japan lest it stir up nationalism in Japan. "If the U.S. keeps on bashing Japan and making one-sided demands on us, it will surely inflame Japanese nationalism," Kakizawa said. Shoichi Ide, a freshman lower house member from the small Komoto faction, concurred: "What worries me now is the rise of narrow-minded nationalism on both sides linked to friction in the economic area."

In the past, many people in Japan feared that friction over defense issues between the two countries might get bound up with trade friction. The past 3 years, however, seem to have brought an opinion shift among LDP legislators on the Japan-U.S. security arrangement.

True, only three of those polled openly advocated scrapping or reviewing the Japan-U.S. security pact and Japan defending itself. Most respondents still spurned the idea of an independent defense. They all said they want to keep the security pact, in line with current LDP policy.

However, the poll showed the legislators as clearly divided on whether Japan is getting "a free ride" regarding its national defense.

Said former Foreign Minister Masayoshi Ito: "There is a big misunderstanding about this free-ride theory. The military bases the U.S. maintains in Japan also play a big role in America's national security." Another former foreign minister, Zentarō Ōsaka, dismissed the free-ride theory as "a reflection of ignorance."



### Younger Voices

In contrast to these free-ride critics—mostly found among veteran LDP politicians—younger LDP lawmakers tend to see the issue from a different perspective.

"It is thanks to our (American) partner that Japan has become what it is today. We should do something in return," said Akira Amari in calling for a greater Japanese contribution to the world.

Fellow Lower House member Masayuki Okajima agreed. He said the free-ride theory was a natural outcome of American sentiments. "It is within the framework of the (U.S.-inspired postwar) Constitution and the Japan-U.S. security treaty that we must view our economic success. Hence we should step up cooperation with the U.S. and the rest of the world," he said.

### \* Editorial Urges Help for U.S. S&L's

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in Japanese 26 Feb 89 p 5—FOR OFFICIAL USE  
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[Opinion by editorial staff member Yutaka Ikahata:  
"Japan Should Cooperate in Rescue of U.S. Banks; Next  
Financial Panic May Be the Real Thing"]

### [Text] Recycling of \$10 Billion Fund May Be a Dream

Japan's balance of payments surplus has recently started to rise again. It is due to all sorts of factors, such as the fact that Japanese export industries have made adjustments to offset the higher valued yen and have restored international competitiveness; exporting in connection with overseas direct investments has risen; and the United States and Europe have not changed the import-dependent structure of their economies.

Consequently, "measures to offset economic friction" caused by "Japan's surplus position" again will be a major issue this year in Japanese economic diplomacy and corporate management. It is highly possible that it will be more difficult to handle this issue now than it was last year, when there were signs of "structural changes toward a domestic demand-dependent economy."

In such an environment, countries all over the world are asking Japan to increase its economic cooperation, especially "financial aid." Demands from within Japan that we respond to these global calls for assistance certainly will grow more insistent. In fact, when the budget for FY89 was drafted, the economic cooperation account alone was increased substantially almost without assessment.

This is fine. It is essential for world peace and development that Japan actively provide economic cooperation, and it is consistent with Japan's national interests as well. However, Japan should provide more diverse, more daring forms of economic cooperation. I have a concrete proposal to do that.

I propose that Japan provide at least \$10 billion and if possible \$50 billion in connection with the "savings and loan institutions (S&L's) reconstruction law," which has become a serious political issue in the United States at this time. Is it impossible to hope that a politician will step forward who can do this?

### A Major Issue for the Bush Administration

The greatest domestic issue facing the new Bush administration of the United States is "relief for the S&L's." With monotonous regularity, Japanese economic commentators call on the United States to take measures to deal with its twin deficit, but concrete measures on this matter do not have to be taken immediately.

By contrast, relief for the S&L's cannot wait. President Bush already has submitted to Congress a bill on the reform, rehabilitation and cleanup of S&L's, but if the bill is not passed, it may bring on a true "financial panic" that will be completely different from "Black Monday (October 1987)," when overspeculation was resolved by market mechanisms.

About 200 banks fail every year in the United States. Since Japanese and American banking systems are different and there are many more banks in the United States, the size of that figure should not cause alarm, but there is no doubt that what is happening in the United States would be inconceivable in Japan.

Failure of thrift banks in the natural energy belt and the agricultural production region is particularly conspicuous. This is because business is bad for their customers and interest rates have risen. In a word, these bank failures are manifestations of U.S. economic difficulties. Thus we can expect many more banks to fail.

For this reason, the U.S. Government has submitted a bill to provide relief to S&L's as well as to strengthen measures to root out crooked bank officers. For example, the "Resolution Funding Corporation (REFCORP)," will be established to resolve insolvent S&L's and the "Federal Savings and Loan Insurance Corporation" and the "Federal Deposit Insurance Corporation" will be merged in order to enhance their capability and authority.

According to the U.S. Government's explanation, more than \$129 billion over the next 10 years will be needed to bail out banks in trouble, and the federal budget will have to shoulder almost \$40 billion of this. Furthermore, REFCORP must come up with \$50 billion in funding.

Naturally, Congressional reaction has been cool because it is felt that it is not necessary to use the people's tax money to rescue banks that have failed due to bad management, and because the amount of relief required is bound to grow larger. Some Congressmen are saying that fund-raising by REFCORP will raise interest rates.

Everything depends on "an order based on trust." If there was no prospect of the relief bill being passed, apprehension about banks probably would explode. Consequently, there is no doubt that Congress ultimately will pass the bill.

Nevertheless, it will not be easy for the United States, plagued by both a budgetary deficit and a balance of payments deficit, to raise funds. Japan's financial institutions probably will buy REFCORP bonds, but there is a limit to how much private companies can do. That is why I am urging that government funds be used.

#### **A Japanese Marshall Plan**

Japan has about 200 trillion yen in fiscal funds for loans and investments. This is being used for such things as public investments, home financing, social welfare and economic cooperation. There is a great deal of latitude in the use of these funds, and they are being used even in areas where they are not needed. They even are being used to purchase stocks.

Shouldn't such fiscal funds for loans and investments be applied to relief for U.S. banks, either by passing them through the economic cooperation fund or by establishing a special account? In Japan, there is strong sentiment that economic cooperation is extended only to developing countries, but using it to resolve the economic difficulties of advanced countries, particularly our ally the United States, is a fine form of cooperation.

Once the United States implemented the Marshall Plan for Japan and other advanced countries. It worked so well it has become a model for economic aid. There have been demands that a Japanese version of the Marshall Plan be implemented in this case, but that role could be filled by providing funds to prevent a financial panic in the United States.

In fact, in 1987, several financial leaders made the decision to lend relief funds to the Bank of America. This was motivated by the desire to repay the kindness shown by that bank to Japanese financial institutions right after the war. This funding helped put the bank on track toward recuperation. In the opposite direction, about 20 years ago, then Finance Minister Mizuta borrowed \$20 million from American banks and was able to ride out a yen devaluation crisis.

Needless to say, the government should bear the exchange risk and take on the fiscal burden of providing low-interest funding for relief of the U.S. banks. The Ministry of Finance should prepare for this.

### **Soviet Union**

#### **USSR's Asian Strategy Shifts Noted**

OW1004002989 Tokyo THE JAPAN TIMES  
in English 8 Apr 89 p 18—FOR OFFICIAL USE ONLY

[By Yoshio Okawara and McGeorge Bundy]

[Text] Mikhail S. Gorbachev is determined to engage and integrate the Soviet Union in the Asia-Pacific region. Two of his five major foreign policy speeches since becoming the Soviet general secretary in 1985 have dealt with Asia. Not only have Soviet relations with China improved dramatically, but also Moscow is gradually developing its links with Japan, South Korea, the Association of Southeast Asian Nations, Australia and the island nations in the South Pacific.

In addition to reducing the burdens of Soviet involvement in regional conflicts, Gorbachev has put forth a series of regional arms control proposals and has agreed to cut Soviet armed forces in Asia by 200,000 men. He has also underscored the importance of integrating his country into the Pacific economic system. The Soviet Union is expanding its horizons in Asia to include more trade and greater economic cooperation not only with Japan, for obvious financial and technological reasons, but also with the newly industrializing economies such as South Korea, Taiwan and Singapore.

Although these initiatives indicate a fundamental shift in Soviet thinking about Asia, the picture is still mixed in terms of concrete policy. The Soviet Union is continuing to upgrade its military deployments in the Northwest Pacific and has not reduced its military assistance to its Asian allies, such as North Korea and Vietnam.

Despite the recent steps to decentralize the foreign trade mechanism and to liberalize policies regarding joint ventures to make them more appealing to foreigners, autarkic tendencies persist. Soviet bureaucrats continue to resist efforts to reduce control over the allocation of national resources and the price system. Moreover, the tensions and strains within the Soviet Union over the direction of economic reform, combined with an upswing in national minority assertiveness and the emergence of Russian nationalism, point to the possibility of political flux.

Two panels of Japanese and American experts have spent three years addressing the significance of these changes in Soviet policy. The joint report we have issued represents the first bilateral attempt to seize the new opportunities presented by Gorbachev's new focus on Asia.

It is the conclusion of the two groups that Japan and the United States should engage the Soviet Union in a constructive dialogue on all aspects of Asian security and work energetically to establish an agenda of their own

concerning the Soviet Union in the region. At the present time, uncertainty about the future may argue against an overly enthusiastic response to Gorbachev's initiative in Asia but it is no excuse for inaction.

First, Tokyo and Washington should promote a positive Soviet role for resolving regional conflicts. Regarding Indochina, this would involve supporting Soviet efforts to get Vietnam to reduce its military forces in Kampuchea and seek a negotiated settlement of the conflict. As Soviet-Chinese relations normalize, the Soviet Union should be encouraged to press the Chinese to strengthen those factions that can provide the foundations for political stability and democratization in Kampuchea and prevent the resurgence of the Khmer Rouge.

Concerning the Korean peninsula, Japan and the United States should endorse closer Soviet and Chinese relations with the Republic of Korea and persuade both Moscow and Beijing to support a policy of cross-recognition. Soviet efforts to prevent North Korean terrorism and other acts of provocation and to stimulate economic liberalization in North Korea would help to create a favorable environment for tension reduction. Washington and Moscow should commence discussions about restraints on arms transfers to the two Koreas.

Second, Japan and the United States should seize the opportunity posed by recent Soviet flexibility on military issues. A high-level U.S.-Japanese study group should be established to analyze the possibility of arms control in Northeast Asia and to develop a bilateral understanding about measures that would be in the countries' interest. The two countries should discuss with the Soviet Union ways to reduce the possibility of military crises and accidents in the region including confidence—and security—building measures for air, ground and naval forces. But Washington and Tokyo must resist one-sided Soviet proposals for limitations on naval deployments designed to weaken America's forward defense posture.

Third, Japan and the United States should develop a coordinated approach for managing economic relations with the Soviet Union. To induce the Soviets to become more economically efficient and more adept at project analysis, the two governments should discourage untied lending and encourage loans on a project basis. American and Japanese direct foreign investment should be driven primarily by the business evaluation of individual firms. Tokyo and Washington should refrain in principle from providing state financial guarantees for such investments and from granting subsidies for trade with the Soviet Union.

Regarding the conditions for Soviet participation in various global and regional economic organizations, the two countries should insist on measures to prevent dumping, on partial convertibility of the ruble, on the

development of a clear tariff policy, and on the disclosure of relevant financial and trade information. We should welcome Soviet efforts to establish free economic zones in the Far East similar to those that now exist in China.

At the same time, the COCOM [Coordinating Committee for Multilateral Export Controls] restrictions on transferring technology with possible military applications should be actively enforced. It would also be appropriate to get the Asian newly industrializing economies to adhere formally or informally to the COCOM guidelines.

Finally, the United States should continue to back Japanese claims to sovereignty over the Northern Territories now occupied by the Soviet Union. If the Soviet Union truly wishes to be considered an Asian-Pacific nation, there is no way the Soviet leadership can avoid dealing with this issue.

Although the emergence of a new Soviet policy toward Asia presents an opportunity to build on current positive trends to promote regional peace and stability, it also challenges Tokyo and Washington to deal more effectively with the non-strategic aspects of U.S.-Japanese relations. The geopolitical threat from the Soviet Union will no longer overshadow all other issues, particularly those arising from economic frictions. Japan and the United States must therefore manage their bilateral economic relationship and their interests in the region to maximize the benefits of interdependence.

As long as the two countries succeed in this task, we have little reason to fear the growing Soviet interest in the Pacific.

#### **\* Perspectives on Improved Bilateral Relations**

41050064 Tokyo JIYU [LIBERTY] in Japanese  
9 Feb pp 147-155—FOR OFFICIAL USE ONLY

[Article by Koji Sugimori: "What's New in Japan-USSR Relations"]

[Excerpts]

#### **1. Timing of the Roundtable Conference**

The sixth Japanese-Soviet Roundtable Conference was held in Moscow's Labor Union Central Hotel during the period 17-19 October 1988. This means that both countries have now hosted this biennial conference three times.

Approximately 130 representatives from Japan participated, led by Yoshio Sakurachi, chairman of the Federation of the Japanese-Soviet Friendship Congress; more than 200 participants represented the USSR, led by Vormel, director of the USSR-Japan Society; and candid exchanges of opinion took place. As has been reported by media in both countries, the conference was a huge



success. Territorial issues involving both countries and the validity of the 1956 "Japanese-Soviet Joint Declaration" were discussed at this conference; also discussed were the political stability and economic development of the Pacific region. What made this conference additionally interesting was its timing—the fact that it was held at a time when the current reforms in the USSR were about to be extended to its foreign policy toward Japan. [passage omitted]

Change was apparent in every area. When we entered the conference hall, we found that Mr Sisilin, deputy chief of the party Propaganda Section, had been selected as the USSR's principal panelist for political issues. The Japanese had not been informed of this before the conference. Although I have seen Mr Sisilin discuss the issue of arms reduction on a Moscow news commentary, I have had no direct contact with him. Especially in Japan, he was little known. The fact that such an individual was chosen to play a principal role in the Roundtable Conference was indicative of the drastic change which had taken place in the party system at about that time. The Soviet Communist Party created six new permanent committees at the Central Committee's general meeting on 30 September 1988 and Mr Yakovlev was elected to chair one of them, the International Policy Committee. It follows then that the International Section, which comes under the Committee's jurisdiction, should reflect the views of Mr Yakovlev, who once presided over the party Propaganda Section. As a result, Mr Falin, president of NOVOSTI PRESS, a subsidiary of the Propaganda Section, has transferred from there to become new head of the International Section, and Mr Sisilin has become his deputy chief. Thus, he was assigned to make the keynote report at the Japanese-Soviet Roundtable Conference. These people had displayed shrewd tact in dealing with Asian countries, including Japan, and there was a connection between their Asian policy and the transfer of Kovalenko, deputy chief of the International Section. Shortly afterward, another official responsible for USSR's Japan policy, the party's second Far East section chief Seranov resigned. More important, this change in key personnel signaled the end of the old International Section and the birth of a new International with new functions. This, furthermore, indicates the end of an era in the USSR's international politics as well as, if viewed from a different perspective, in Japan's relationship with USSR. [passage omitted]

##### **5. Japanese-Soviet Relations and the Roundtable Conference**

The problem of how to improve the Japanese-Soviet relationship has been discussed extensively. The discussions, which included the issue of the Northern Territories, were far more to the point than those of previous Roundtable Conferences. The Soviets expressed opinions which went a step beyond their previous formalism. This is in tune with general trends currently emerging in the USSR, and not necessarily limited to the Roundtable

Conference. Even so, well-thought out, substantive discussions always contribute to a fruitful conference. What have been confirmed in the process of deliberations are, first of all, the existence of territorial issues between the two countries and, secondly, the 1956 "Japanese-Soviet Joint Declaration" as a basis for all future deliberations of Japanese-Soviet problems. Both acknowledged, however, that the territorial issue is not the only problem affecting Japanese-Soviet relations, that there are more extensive problems, and in order to improve the relationship, various approaches, especially study of new forms of economic cooperation, will be required. Furthermore, even if Japan's defense expenditure slightly exceeds 1 percent of GNP, Japan is not considered militaristic. The Soviet side stated that Japanese-US relations, which encompass the Security Treaty, will not damage Japanese-Soviet relations. However, to be frank, I felt that the discussion presented by the Japanese side was too simplistic to reflect dynamic international situations centering on the United States and the Soviet Union. When asked about Japanese thinking on the 1956 "Joint Declaration," in which the Japanese demanded the return of the two islands, the Japanese side was unable to provide any answer. Neither was there any discussion of how an improved Japanese-Soviet relationship would affect international situations. The Soviet participants paid attention to points raised by such delegates as Prof Mineo Nakajima, Tokyo Foreign Language College; Eizaburo Saito, a Liberal Democratic Party member of the House of Councillors; Minoru Mizuta, a Socialist Party member of the House of Representatives; Yoshihiko Seki, a Democratic Socialist Party member of House of Councilors; Yukio Hatoyama, a Liberal Democratic Party member of the House of Representatives; Professor Tsuneaki Sato, Nihon University; and Takayuki Nakazawa, deputy chief of the International Department, Jiji Press. However, the fact is that merely requesting change from the Soviet Union would not solve the problem; from this viewpoint, frankly, I found the conference discussions not altogether satisfactory. The discussions by the Japanese focused on what Japan wants from the USSR, displaying a lack of awareness of what problems Japan needs to solve politically. In reality, needless to say, the Soviet Union's new Japan policy has been progressing steadily, now more powerful than any speech made at a nonofficial conference such as the Roundtable Conference. For instance, reports made at the Liberal Democratic Party-sponsored international symposium by Primakov, director of research at the Institute for International Relations in the World Economy, and by Kunadze, chief of the institute's Japanese Political Affairs Division, and by Zaytsev, chief of the Japanese Economic Affairs Division of the same laboratory; as well as interviews by the Japanese press with Kapitsa, director of the Oriental Research Institute, during his visit to Japan; and statements made in Japan by Bovin, editorial commentator at "IZVESTIYA," already had presented proposals more substantial than those of the Roundtable Conference deliberations. Furthermore, the USSR's new Japan policy is closely connected to the demilitarization of Vladivostok. That is to say, by its demilitarization, the strategic importance of the Kuril

Islands has been reduced almost to nil, thereby altering the value of the Northern Territories to the Soviet Union. The Soviet Union has already declared that it will move all military capabilities currently based in Vladivostok to Petropavlovsk on the Kamchatka Peninsula and other sites. This type of statement can be easily verified by an observation satellite. The USSR's new Asia/Pacific policy is expected to deal first with complete reconciliation with China, followed by strengthening of economic relationship with NIEs [newly industrializing economies] and demilitarization of Vladivostok. After a window to the Pacific has thus been opened, they will eventually deal with Japanese problems. The Soviet Union, being realistic, knows that Japan will not readily change its attitude toward the USSR and that it will need time to improve its relationship with Japan. It can be stated that the Soviet Union is in no hurry to strengthen the Japanese-Soviet relationship. It has not built up expectations in the area of economic cooperation with Japan, because, although the Soviets want Japanese funds and technology, they know, at the same time, that the possibility of getting such assistance is slim. Frankly, a political move to strengthen Japanese-Soviet relations within Japan is not particularly strong. Of course, there are a few in the economic field who strongly advocate dynamic Japanese-Soviet economic cooperation; also, the mainstream Liberal Democratic Party is developing an awareness that the time has arrived to develop full-scale diplomatic relations. The Socialist Party is preparing for a northeastern general conference revolving around discussions between Party Chairman Doi and Soviet leader Gorbachev.

We now are entering an era in which full-scale governmental, financial, and academic exchanges are about to take place between Japan and the Soviet Union. This, needless to say, represents a new kind of Soviet diplomacy. Consequently, exchanges on a nongovernmental level, the Japanese-Soviet Roundtable Conference being a case in point, will wind up carrying relatively less weight. However, the Roundtable Conference has played a major role in the past in promoting understanding between Japan and the USSR; and, since the relationship between the two countries tends to be unpredictable, I feel that it is better to maintain a sector where nongovernmental exchanges of discourse can take place. It may be necessary, therefore, to modify the exterior aspects of the conference, and to attempt to preserve tradition intact in some form. After the conference, a suggestion was made by Mr Vormel, Minister of Marine Shipping and a leader of the Soviet delegation, that the next roundtable conference be held aboard a Soviet passenger liner cruising the Japan Sea. Today, when the cruise is attracting attention as a new form of travel, his suggestion, which anticipated the latest travel trend, is indeed interesting. If the conference is held aboard a ship, the Soviet delegation's behavior, ignoring the international conference rules and leaving the conference as soon as they finished speaking, may be corrected.

### Joint Spaceflight Project Called Surprise

OW0604210989 Tokyo SANKEI SHIMBUN  
in Japanese 4 Apr 89 Morning Edition p 3—FOR  
OFFICIAL USE ONLY

["Special Feature" column by Kenshiro Okimoto of the Science Department: "TBS 'Spaceflight Project' Causing Sensation"]

[Text] The news came as a surprise to everyone. A staff member of the Tokyo Broadcasting System [TBS] will be flown to the Soviet space station Mir, according to an agreement on the joint space project signed between TBS and the Soviet Administration for Space Development and the Use of Space Engineering (Glavkosmos) in late March. The announcement was a complete surprise to the Foreign Ministry and the Science and Technology Agency. It is said that the flight is scheduled for 1991. However, since a Japanese astronaut will be on a flight aboard a U.S. space shuttle in July 1991, if a TBS staff member should be flown to Mir during the 1st half of 1991, he would become the first Japanese astronaut.

### Puzzlement Among the Parties Concerned

When this news came on 27 March, all the persons concerned were puzzled, because they believed without any doubt that the first Japanese astronaut would be one of the three Japanese—Mr Mamoru Mouri and two others [who are under training in the United States now]. A source at the Science and Technology Agency's International Space Division stated: "We never thought it would be possible for a private enterprise to participate in a space flight, not to mention a reporter on the Soviet Mir for 6 days doing live broadcasting."

On the morning of 27 March the news reached the National Space Development Agency, to which Mr Mouri and two other astronauts are attached. No comment was made "until detailed information was available." However, board Chairman Hiroyuki Osawa and Mr Mouri made their views known in written statements on the same evening. Chairman Osawa stated: "Isn't it delightful that space seems to have become closer to us and there seems to be a growing interest in space exploration?" Mr Mouri's statement was to the same effect.

Nevertheless, it was the sponsor, TBS itself, that was most confused. According to the original plan, TBS would hold a news conference on 30 March after Managing Director Kiichi Nakamura and others who had attended the signing ceremony for the agreement had returned from Moscow. However, an evening paper revealed the news. Therefore, TBS hastily dispatched its staff to the Science and Technology Agency and other agencies concerned to explain the project. TBS decided to hold a news conference at one of its studios at 1800 that evening. At the news conference, Managing Director Nakamura and Vice President Khrushik of the Soviet



Administration for Space Development and the Use of Space Engineering were seen via satellite broadcasting transmitted live from Moscow.

The matter of primary concern to the reporters was the timing of the flight. As far as news value is concerned, there is a world of difference between reports on the first Japanese astronaut and reports on the second. The TBS spaceflight project will be a major event marking the 40th anniversary of the founding of TBS. Since the anniversary falls on 10 May, this day would be the best timing for launching the flight.

At the Moscow news conference held a few hours prior to the satellite news conference in Japan, Managing Director Nakamura replied that "the flight would be made during the 1st half of 1991." However, in his reply to a question at the satellite news conference, he toned down his statement and said: "It has been suggested that the flight be made on 10 May. However, due to the need for training, I can only say that it will be made during 1991. This does not mean that the project is aimed at beating the shuttle project." In this connection, the TBS evening news program failed to arouse as much sensation as had been expected. The TBS staff members engaged in broadcasting the news conference felt rather disappointed, and said: "It seems that the statement has been toned down because it was not appropriate to overstress that a journalist would become the first Japanese astronaut."

According to TBS, the spaceflight project is the result of its exchanges with Soviet agencies connected with space development through its past efforts in collecting information. Reportedly, talks on the actual project were started last autumn. At the news conference, Vice President Khrushik stated: "This will be an excellent chance for other peoples to understand that Soviet space development programs are meant for peaceful purposes."

A Japanese space scientist who said he had learned of the project during Vice President Khrushik's visit to Japan in early March stated: "As the Soviet Union aims to lead the world in space exploration, it certainly wants to send the world's first journalist into space. It would be a lie to say that the Soviet Union is not attracted by the cooperative funds to be paid for the project."

It is reported that the cooperative funds to be paid by TBS to the Soviet side amount to approximately Y1.56 billion. When compared with the Y20 billion to be paid to the United States, this is certainly much less expensive. Still, it is quite a large amount.

#### **TBS as the First Private Enterprise**

The Soviet space station Mir is known to have already carried astronauts from 13 nations. Aside from astronauts from the East European nations, those from France, India, and Iraq have already participated in

projects. However, their participation was based on governmental exchanges. Therefore, the TBS project will be the first one to be sponsored by a private enterprise.

Nevertheless, the Foreign Ministry has indicated its disapproval of the project due to the treaty on principles covering the activities of states in the exploration and use of outer spaces which Japan signed in 1967. It is clearly stipulated in Article 6 that "the activities of nongovernmental organizations in outer spaces must be approved by the nation concerned which has signed the treaty, and should also be under the continuous supervision of this nation." In this context, there is a possibility that TBS will have to apply for government approval for this project.

An administrative official of the Foreign Ministry stated: "When we signed the treaty, no assumption was made about the activities of private enterprises in space. In dealing with such an unexpected situation, we have to study what Japan must do in carrying out the obligations in accordance with the treaty. We will study the issue on the basis of our interpretation of the articles." The project seems to have become a headache for the Foreign Ministry.

Meanwhile, the Soviet mass media have been noted to be making severe criticisms, to the effect of "why should a Japanese be allowed to make the first flight in space as a journalist?"

Although the TBS spaceflight project has been launched in splendid style, it is now facing a tough struggle to break away from the gravity of politics.

#### **Soviet, East European Study Center Set Up** *OW1404150289 Tokyo JIJI in English 1319 GMT* *14 Apr 89—FOR OFFICIAL USE ONLY*

[Text] Tokyo, April 14 (JIJI PRESS)—A research institute specializing in the Soviet and East European economies has been established by the Japan Association for Trade With the Soviet Union and Socialist Countries of Europe.

The institute for Soviet and East European Economic Studies, the first of its kind in Japan, will study the communist bloc's economies and promote exchange with U.S. and European researchers in the same fields, association officials said Friday.

The information gathered will be provided to member companies of the association and outside parties, they said.

In Soviet and East European studies, Japan lags far behind the United States and Europe, the officials said. The officials pointed to the need to enhance these studies to expand Japan's say in the international community.



The institute is headed by Hisao Kanamori, chairman of the Japan Economic Research Center.

### China

#### Official Views Japan's International Roles

OW1104092689 Tokyo THE JAPAN TIMES in English  
10 Apr 89 p 19—FOR OFFICIAL USE ONLY

[By Zhu Ronggen, director of XINHUA NEWS AGENCY's Tokyo bureau: "Some New Roles for Japan in New Era"]

[Text] At present, the situation in the Asian and Pacific region is at a turning point. While military and political confrontations have eased, almost every country in the region is giving top priority to economic and technological development. That means in their general security strategies, military strength is becoming relatively less important, and the economic and technological strength of a country is supposed to play a relatively greater role.

With its rapid economic growth the Asia-Pacific region, already the most dynamic part of the world, may well occupy center stage in the world economy of the 21st century. The region has seen the fastest speed in its economic development, and it is becoming more and more important in the world economy as a whole. Besides, apart from Japan and the Asian NIEs (newly industrializing economies), the economic advance in the ASEAN (Association of southeast Asian Nations) and China are also attracting world attention.

Development of the region's countries, however, is extremely unbalanced. So, despite their common desire to strengthen regional cooperation, these countries face a major task if they are to bridge the wide economic and cultural gaps between them. Being nations at different levels of development and with different systems, they face different economic and political problems requiring specific solutions, and their interests and intentions are also distinct from each other. Some developing countries in the region are increasingly indebted and ever more pressured by the constraints of protectionism in foreign trade and a shortage of funds.

#### Five suggestions for smooth progress

Whether or not the Asia-Pacific region will enter a "new era" in the 21st century will depend on whether it can develop into a peaceful, stable, prosperous and open area. Pacific Rim economic growth should not be limited to the United States and Japan as well as a restricted part of the region. This potential change will also depend on whether or not all the nations of the region, particularly the major developing ones, can attain common growth, interdependence and shared prosperity.

Japan's progression from an economic giant with the largest trade surplus to a large-scale capital exporter and the world's major creditor is a remarkable factor in the

development of the region. Japan's economic miracle has been admired in Asia and the rest of the world as well. Japan's position in the international community is expected to become even more influential. What role should Japan play and how should it handle its international affairs? In my opinion, people have mixed feelings about this question, having great expectations and some anxieties and fears.

It is my suggestion that:

1. By using its huge economic, scientific and technological strength, Japan will play an increasingly important role in expanding economic cooperation and assistance in the region while honoring its pledge never to become a military power.

To promote common development and prosperity, Japan could boost ways to develop the potential vitality of Pacific economies. It should assume greater responsibility and do more for the developing countries in the region. Japan should act positively in opening up its own market wider and strive to create a market that is open in fact as well as in name. It should provide more capital on preferential terms and more technology to create more favorable conditions for common development.

In other words, Japan should play a role as a promoter of peace, stability and economic development in Asia and other parts of the world through its economic might. Being a political power is not bad in itself. If Japan takes the road of peace and development, it will be acceptable. To this end, Japan should keep its pledge that it "will never become a military power" in a bid to assume a foreign profile as a peace power.

We maintain that an independent nation is entitled to keep its own defense forces at an appropriate level, but their growth should, at the same time, be limited so that neighboring nations do not think they have surpassed self-defense requirements and will pose a threat to their security. Japan's current military spending and the speed at which it is increasing make it rank high on the list of world powers. In such circumstances, some Asian nations' worry about Japan growing into a military power can hardly be dispelled merely by verbal promises.

The YOMIURI SHIMBUN said in a recent editorial: "We must never forget that the wounds of war still ache in some foreign countries." Asian neighbors may have felt that Japan had forgotten their still aching scars, the editorial said, adding, "the 'forgive-and-forget' way of settling the past appears to be peculiar to Japan and it is difficult for the rest of the international community to understand it." I agree with these comments. As Japan approaches the 21st century, it needs to close the gap between domestic and foreign perceptions of its position and role and to win the understanding of the rest of the world by taking vigorous action from a global perspective.

2. Japan should abide by the principle of equality and mutual benefit in its international activities, especially in the fields of bilateral and multilateral economic cooperation and avoid adopting a dominant, arrogant attitude.

Japan should play an active role in a way acceptable to the international community and attach importance to the harmonization of Japanese business and other activities abroad with their host societies. The Japanese should avoid judging things only in terms of economic criteria and looking down on the rest of Asia.

3. It should persist in international coordination in carrying out its economic policy, step up its economic restructuring in adapting to the changing international environment and uphold a policy that trade and exchanges are in the best interests of not only Japan but the whole Asia-Pacific region.

Japan should make efforts to prevent that breeding of national egoism and shortsighted deeds for immediate interests.

In this respect, I would like to put forward two suggestions. Firstly, in handling its external relations with other countries, the Japanese should have a correct starting point, namely, to proceed in the spirit of the principle of equality and mutual benefit and to treat others with sincerity. Secondly, in dealing with any problems or issues, it is advisable that the Japanese act from a long-term perspective, rather than being obsessed by short-term interests.

4. Japan should foster a sense of globalism, help enhance the cohesion of Asia, make greater contributions to the promotion of economic cooperation and help create a new international economic order of equality, mutual benefit and shared prosperity.

We also hope for a bigger role for Japan in solving environmental, third World debt and other pressing global issues.

5. Japan could make more effective efforts to train personnel from nations in the region, promote direct investments overseas and improve technology transfer to developing countries in the region.

It is welcome that Japan has allocated a larger share for Asian countries in its official development assistance (ODA) program, and that it is going ahead with a plan to recycle its huge trade surpluses to developing countries. However, I still believe that Japan has been overcautious in its technology transfer to developing countries, and it is not doing enough in training personnel from those countries. This, as I observed, has not only invited complaints from abroad, but also is damaging to the leading role that Japan is supposed to play in the economic development of the Asia-Pacific region.

Japan should provide its ODA in a more effective and efficient way and at the same time improve the training of technical and management personnel for the developing countries which, I think are not only in need of Japan's economic aid, but also of their own qualified technical and management personnel. Fundamentally speaking, the developing countries must develop themselves through their own efforts. Talented technicians and managers are of prime importance for their economic development.

#### World of regional economic communities

By the year 2000, what kind of a world will we have to face?—a world full of regional economic communities. Four major economic and trade groups have been established or are taking shape. These are the European Community (EC) which plans to create an integrated market by 1992, a United States-Canada Free Trade Zone, the Council for Mutual Economic Assistance composed of the Soviet Union and Eastern European countries, and a newly emerging Asia-Pacific regional economic cooperation group.

There is no doubt that in the future a regional economic community will take a larger share in the world economy and trade than a single country. In this context, even an economically strong country will seem dim in the world against regional economic communities.

Therefore, in my view, it is high time to seek appropriate ways and means to prevent these regional arrangements from developing into closed blocs.

We should bring into full play the role of the Pacific Economic Cooperation Conference (PECC) which held its sixth general meeting in Osaka last July. At the same time, we should study the possibility of an Asia-Pacific forum to exchange views and carry out policy coordination.

We are now in a fast-changing world. We are now on the eve of the turn of the century. Never in the history of economic development have there been more opportunities and challenges than today.

Many people say the 21st century will be the Pacific century, but without common development of all countries, particularly major developing nations, that dream can hardly come true. Only with these countries taking part in economic cooperation and sharing prosperity, can the region enjoy peace and stability, and finally have a bright future. Let the peoples along the Pacific Rim join hands to welcome in the "Epoch of the Pacific."

**Major Firms Review Business Plans in China**  
*OW0804075289 Tokyo NIHON KEIZAI SHIMBUN in Japanese 6 Apr 89 Morning Edition p 13—FOR OFFICIAL USE ONLY*

[Text] China's NPC (National People's Congress), which closed its session on 4 April, clearly announced a tight economic policy for "2 years or more" and China is

increasingly tightening the examination standards for foreign business applications, (according to the China office of a major firm). Under this development, major Japanese firms have begun reviewing their participation in projects and trading patterns in China. Although Japan and China concluded the investment protection treaty last September to promote investments from Japan, cautious moves by the Japanese firms are likely to influence overall investments by Japanese enterprises in China.

What Japanese enterprises are wary of is transactions with local enterprises in China. In line with a series of policies for free trade, local enterprises have been engaging increasingly in independent exports and imports during the past few years. However, there are strong views that "they will become the first object of economic adjustment." On imports by local enterprises, it is said that China's banks "do not issue the letter of credit (LC) if they fail to deposit money equivalent to from 100 to 120 percent of import payments." Some business talks between Japan and China on petrochemical products and electronics parts are said to have been canceled although the size of these businesses is small.

China's tight monetary policy is likely to influence projects. An increasing number of projects are being postponed or canceled in southern China—including Guangdong Province—which holds relatively abundant foreign exchanges, because of difficulty in securing local funds (yuan). For this reason, some firms wonder if projects to be implemented with new loans amounting to Y [yen] 800 billion will be implemented after 1990 as planned, and they have begun reviewing their participation in the projects. The new yen loans were committed to by Prime Minister Takeshita when he visited China last August. On China's recent economic adjustment, the firms share the opinion that "this will not develop into a serious situation in which General Secretary Zhao Ziyang might resign," (according to Marubeni Chairman Kazuo Haruna). Since the NPC clearly confirmed the tight economic policy which has continued since last autumn, Japanese firms are expected to review, and approve or dismiss, on-going business transactions.

The Japan-China investment protection treaty concluded last year calls for equal treatment of Japanese investments with "local investments." For this reason, it was anticipated at the time that Japan's electric household appliance firms and automakers would actively promote joint venture businesses in China.

### North Korea

**\* North's Political Maneuvers Questioned**  
41050069 Tokyo GUNJI KENKYU [THE JAPAN  
MILITARY REVIEW] in Japanese  
No 2, Feb 89 pp 190-195—FOR OFFICIAL USE  
ONLY

[Unattributed article: "The North and South Korean Situation"]

[Text] North's Military Superiority Remains Unchanged

The Institute for International Strategic Studies (IISS), a world-renowned authority on military affairs, issued its annual report, "Military Balance 88-89," on 19 October 1988.

Attached is a table showing the military strength of North Korea [DPRK] and South Korea [ROK] in terms of troop strength and equipment in major services and categories, as excerpted from the IISS report. [table omitted]

From this table, we notice the following noteworthy points: 1. North Korea remains quantitatively superior in terms of troop strength and equipment. 2. As far as the troop strength of North and South Korea is concerned, it remains almost unchanged this year from the respective levels of last year. 3. In terms of equipment, there has not been much change in North Korea's strength, but clearly, South Korea has made gradual gains in tanks, submarines, and surface ships. 4. North Korea has apparently continued to reorganize its forces, with two armored divisions and some automated and mechanized divisions having been reorganized into regiments. 5. For the first time, the IISS report listed the strength of U.S. forces in Korea.

Concerning the inferiority of the South Korean military strength as indicated by the IISS report, a Korean newspaper quoted a military expert as commenting: "A delicate military balance is being maintained by offsetting the quantitative inferiority of the ROK forces with the more than 40,000-strong U.S. forces in Korea, the U.S. Air Force on Okinawa, and the qualitative and technological superiority of the ROK forces."

But, in reality, what is the actual military disparity between the North and the South? At a 29 January 1988 press conference, shortly before his retirement, then President Chon Tu-hwan said, "ROK military strength is approximately 68 percent of that of North Korea." On the other hand, General Menetrey, commander of U.S. Forces in Korea, at his press conference on 3 February, said, "the military power of the ROK forces is only 62 percent of that of North Korea; they are particularly weak in air and naval strength."

With South Korea entering an era of democratization, and with the ruling party in the minority in the National Assembly, the 1989 defense budget bill (6.2 trillion won), introduced on 2 December 1988, which accounted for 32 percent of the total national budget, was cut by 130 billion won before being passed. This makes it doubtful that the buildup of ROK forces will continue at its previous pace. If the buildup plan should hit a snag, the military disparity between North and South would widen rather than shrink.

Apparently taking advantage of these circumstances in South Korea, North Korea, on the one hand, is gaining military superiority by steadily introducing new military



hardware from the Soviet Union and, on the other, is stepping up a peace offensive and clamoring for "disarmament." This state of affairs is expected to continue into the mid-nineties.

**North Korea Proposes 'Comprehensive Security Measures for Peace' in a New Propaganda Offensive**

On 7 November 1988, North Korea convened a joint conference of the Central People's Committee, the Standing Committee of the Supreme People's Assembly, and the State Administration to discuss "comprehensive measures for securing peace designed to promote the independent peaceful reunification of the fatherland." The conference adopted "measures for securing peace" based on the "four-point principle for securing peace on the Korean Peninsula." The gist of the measures is as follows:

- I. Four-Point Principle on Securing Peace
  - A. Peace in Korea should be aimed at reunification.
  - B. Peace in Korea should be secured by the withdrawal of foreign troops.
  - C. Peace in Korea should be secured by disarmament on the part of the North and the South.
  - D. Peace in Korea should be realized through dialogues between authorities responsible for the aggravation of tension.
- II. Comprehensive Measures for Securing Peace
  - A. Measures for a Step-by-Step Withdrawal of U.S. Forces and Disarmament by the North and the South to Realize an Enduring Peace
    1. Step-by-Step Withdrawal of U.S. Forces
      - a. The United States will withdraw nuclear weapons on a priority basis. The withdrawal of nuclear weapons will be completed by the end of 1990 in two steps.
      - b. The withdrawal of U.S. forces will be completed by the end of 1991 in three steps.
      - c. The United States will neither introduce new weapons nor provide equipment beginning the day it starts withdrawal of its forces.
      - d. The United States will deliver to South Korea none of its weapons and combat hardware earmarked for withdrawal, including nuclear weapons.
    2. Step-by-Step Reduction of North and South Korean Armed Forces
      - a. Military balance will be maintained through arms reduction by both sides. The forces reduction will be completed by the end of 1991 in three steps. Each side will reduce its troop strength to 400,000 by the end of 1989, to 200,000 by the end of 1990, and beginning in 1992, the troop strength of each side will be 100,000 or less.
      - b. In parallel with the reduction in troop strength, military equipment will be reduced by steps. Once the reduction in

- troop strength begins, no military hardware will be introduced from the outside.
- c. All paramilitary organizations will be disbanded within 6 months of the day arms reduction commences.
3. Notification and Verification of U.S. Withdrawal and North and South Korean Arms Reduction
  - a. The United States will inform North Korea of the status of withdrawal of its armed forces, and North and South Korea will notify each other of its arms reduction. The parties involved will make public the details of the withdrawal and reduction.
  - b. The function of the Neutral Nations Supervisory Commission (NNSC) will be expanded to enable it to verify the status of force withdrawal and reduction.
4. Tripartite Talks Among the North, the United States, and the South
  - a. Tripartite talks will be held among responsible authorities of North Korea, the United States, and South Korea. North Korea and the United States on the one hand, and North and South Korea on the other can hold respective bilateral talks within the framework of the tripartite talks.
  - b. For discussion of the question of verification and of expansion of NNSC functions, the NNSC member nations (Poland, Czechoslovakia, Switzerland, and Sweden) will be invited to the tripartite talks as observers.
  - c. At the tripartite talks, the withdrawal of U.S. forces and the reduction of North and South Korean forces will be confirmed and made permanent by a peace agreement between North Korea and the United States and through a nonaggression declaration by North and South Korea, executed on the basis of an agreement reached on the issue of force withdrawal and reduction.
- B. Measures for Easing the State of Political and Military Confrontation Between North and South
  1. Relaxation of the State of Political Confrontation
    - a. Each side will stop vilifying and slandering the other side.
    - b. Each side will stop political activities aimed at slandering the other side and adding fuel to confrontation.
    - c. Many-faceted cooperation and exchanges will be realized.
  2. Relaxation of the State of Military Confrontation
    - a. The DMZ will be converted to a peace zone in order to remove the state of military confrontation between the two sides.

A neutral observer force consisting of military personnel of the NNSC member nations will be deployed in the DMZ.

- b. Each side will stop large-scale military exercises against the other side.
- c. All military actions which might cause a military clash on the ground, on the sea, or in the air will be stopped.
- d. A telephone hotline will be installed between high-ranking military authorities of both sides in order to prevent an accidental clash from developing into a major crisis.

3. High-Level North-South Political and Military Talks

High-level political and military talks should be held in order to ease the current state of political and military confrontation.

Separate high-level political talks and high-level military talks can be held within the framework of these talks.

In conclusion, North Korea counters the South Korean proposal for an unconditional summit meeting by saying, "When tripartite talks and high-level political and military talks are held and proceed successfully, North and South will hold a summit conference in a good atmosphere." The North Korean measures for securing peace on the Korean Peninsula then declares: "The stance and attitude toward national reunification should be proved by deed, not by word....The year 1995 is a historic year in which falls the 50th anniversary of the liberation of our fatherland, and this year should become an important historic borderline beyond which we should not carry over the task of national reunification unfinished."

III. Propaganda With No Prospect for Realization

The "comprehensive measures for securing peace" may be construed as a response to President No Tae-u's 18 October 1988 speech at the UN General Assembly. They are nothing more than an elaboration, with variations in the order of presentation, of the substance of the 23 July 1987 "statement of the government of the republic," calling for an arms reduction between North and South, the withdrawal of U.S. forces, and tripartite talks "in order to stamp out the root causes of war and promote peaceful reunification." The ROK regards the latest proposal of the North as, in the words of Foreign Minister Choe, "nothing but a rehash of old demands."

At the outset of its latest proposal, North Korea gave the highest priority to withdrawal of U.S. forces, and particularly the removal of nuclear weapons, most probably mindful of the nuclear disarmament between the United States and the Soviet Union. In addition, in light of growing anti-U.S. sentiment in South Korea and the emerging controversy about the issue of shifting operational control of the ROK Armed Forces to South Korea,

the proposal may also be aimed at adding fuel to anti-U.S. sentiment in South Korea.

A scrutiny of this proposal reveals some contradictions and raises some questions, considering the past behavior of North Korea.

The first question involves the forces reduction proposal. In 1987 North Korea declared that "our troop strength is in the neighborhood of 420,000." In the 1987 statement of the government of the republic, North Korea declared that "to achieve a breakthrough for a reduction in troop strength, we will unilaterally reduce our troop strength by 100,000 by the end of 1987. Subsequently, in December 1987, it declared that the troop reduction "has been carried out successfully."

How does this statement square with the latest proposal? Anyway, it is obvious that the troop strength is not in the neighborhood of 420,000.

The second question involves the proposal for "expanding the powers of the NNSC." NNSC functions remain the same this year as last year. One should ponder the question of who is responsible for the fact that the NNSC, currently stationed inside the DMZ, remains dormant. Immediately following the cease-fire, the NNSC was active only in South Korea, whereas in North Korea the NNSC was not allowed to function properly. President Syngman Rhee was so offended by this ban that he drove the communist members of the NNSC into Panmunjom, and since then the NNSC has been stationed there. The question remains: Will North Korea completely guarantee free activity to the NNSC as the South does?

The third question involves the proposal to deploy a neutral observer force. North Korea made this proposal last year. But no country involved has responded to the proposal. A considerable troop strength would be required in order to keep an eye on the area along the 155-mile military demarcation line, and who would bear the cost? The proposal seems to be an empty idea.

Last, doubts are raised concerning the proposal for "tripartite talks." According to the tenor of the North Korean proposal, we get the impression that despite the proposal for "tripartite talks," North Korea gives primary importance to "DPRK-U.S. talks," while regarding North-South talks as secondary.

This stand is hard to understand because North Korea has always clamored for "independent and peaceful reunification" free from interference by outside forces. We cannot but surmise that hidden behind this proposal is a sinister ambition to "convert the whole country (all of the Korean Peninsula) to socialism and communism."

There is not a person in the world who does not want to see the Korean Peninsula peacefully reunified. Judging from all this, the North Korean proposal is viewed as nothing but an empty, impracticable propaganda ploy unique to North Korea, aimed at drawing world attention to it and taking the initiative.

Both China and the Soviet Union have expressed support for this proposal.

However, the expression of their support seems to be nothing more than lipservice, as was customary in the past.

Probably because it was the presidential election time when this proposal was made, the United States has made no direct response to it. No response has been forthcoming from East European countries either, probably because they have been busy approaching South Korea. East European countries may better understand the true purpose of the North Korean proposal than we do.

We used to regard President Kim Il-song as a more flexible leader, but we cannot but feel that he is so increasingly obsessed with his "chuche ideology" that he has become helplessly intransigent.

#### Ineffectual North Korean Protest Against Hungary

Demanding "cohosting" to the end, North Korea boycotted the Seoul Olympics, which was attended by all Eastern bloc countries, including China and the Soviet Union, along with countries of the West; and it has been pursuing a course gradually running against the tide of the world.

In early 1988, the South Korean Chamber of Commerce and Industry announced that "we have concluded a business agreement with the Hungarian Chamber of Commerce and Industry to expand economic cooperation." On 26 January, ROK Foreign Minister Choe announced that "in March 1988, Hungary will become the first socialist country to open a trade office in Seoul."

Since then, nothing was heard of the matter until 13 September, when Foreign Minister Choe suddenly announced that "an agreement has been reached with Hungary to exchange permanent missions." On the same day, Kang Sok-chu, North Korean first vice minister of foreign affairs, reacted and criticized South Korea by stating that the agreement "will be an intolerable act detrimental to relations between the DPRK and Hungary."

Needless to say, Hungary must have signed the agreement with South Korea with the understanding or approval of the Soviet Union, the suzerain state of socialist countries. Hungary seems to have notified North Korea of this agreement in advance.

After receiving this notification, on 14 April North Korea appointed Kim Pyong-il, second son of President Kim Il-song, as its ambassador to Hungary, and it can readily be imagined that this move was designed to foil closer ties between South Korea and Hungary.

Seeing that this attempt did not have the intended effect, North Korea, through the 19 September NODONG SINMUN article, criticized Hungary's approach to South Korea as "an act of betrayal to socialism" and recalled Ambassador Kim Pyong-il in late September as a gesture of protest.

Subsequently, on 25 October, following the Olympics, the ROK Ministry of Foreign Affairs announced that "an ROK permanent mission has been set up in Budapest." On 26 October, the following day, a North Korean Foreign Ministry spokesman issued a warning statement in protest against Hungary. The gist of the statement follows:

1. Our side has time and time again made a comradely admonition against opening a permanent mission. But they said that they could not "change the decision." This notification shows how far their action deviates from the principles of socialism.

2. The Hungarian action is nothing but direct participation in the criminal machinations of the United States to perpetuate the division of Korea by giving South Korea the semblance of an "independent state."

3. Concerning their entering into bilateral relations with the South Korean puppets, they went so far as to say that "our allies have shown understanding and approval," but according to our survey, our allies were neither consulted on the Hungarian action nor knew of the fact that such a plan had existed.

4. The attitude taken by Hungary runs counter to the basic interests of the world's socialist systems and to the aspirations of the Korean people. Should Hungary take the course of deepening its relations with the South Korean puppets in spite of our repeated advice, Hungary will be held fully responsible for all the consequences that may arise therefrom.

In an immediate reaction to this warning statement, the Hungarian authority in Beijing said on 26 October: "In line with the international reality of 'two Koreas,' we hope to establish diplomatic relations with both North and South Korea and to promote exchanges with them. It is regrettable that North Korea has issued a statement intimating its intention to sever relations."

Meanwhile, during his 27 October interview with the Korean press agency YONHAP, Pozsgay, Hungarian Minister of State [kokumuso] [Pozsgay is a member of the Hungarian Politburo], rebuffed the North Korean



protest, saying that "Hungary is a sovereign state, and there is no reason why it should receive a protest from North Korea with regard to its foreign policy."

Regarding the North Korean warning statement, some Japanese media (TOKYO SHIMBUN, 27 October), probably taking note of the North Korean contention cited in section 3 above, are of the opinion that the statement was "intended to hold China and the Soviet Union in check." However, neither China nor the Soviet Union expressed their official attitude on this matter. Nevertheless, the Hong Kong newspaper TA KUNG PAO, which is said to represent the views of China, in its quasi-editorial column "Random Talk," said that the North Korean protest "will serve no purpose." On the other hand, it is noteworthy that, in its 29 October issue, SHIJIE RIBAO said: "Today the attention of the world is focused on how Pyongyang will break away from self-seclusion, the state of self-imposed isolation."

Yugoslavia opened a trade office in Seoul after Hungary. In addition, the Soviet Union, Poland, and Bulgaria are also scheduled to open their trade offices in Seoul soon. Czechoslovakia is also considering improving its economic relations with South Korea; in fact, on 22 November the party general secretary said that Czechoslovakia "has already begun low-level contact."

Coinciding with this statement, Radio Pyongyang on 22 November carried a 10 November statement entitled "We Condemn Hungary," purported to be issued by the "Korean National Democratic Front," which is believed to be a bogus South Korean organization in North Korea. In essence, the statement says that the opening of a Hungarian permanent mission: 1. is an unpardonable act hostile to our people. 2. is a criminal act hampering our people's sacred cause of national reunification. 3. is an act of betrayal of Marxism-Leninism and socialism. 4. will become the target of our masses' anti-Hungarian struggle.

Thus, the statement announced an anti-Hungarian struggle in a very strident tone.

However, while North Korea is condemning an "act of betrayal of socialism" and an "act of betrayal of Marxism-Leninism," the trend today inclines toward attaching greater importance to economic development than to ideology. It is rather the North Korean attitude running counter to this trend that should be criticized.

On 5 December last year, a Hungarian permanent mission was officially opened in Seoul, spurring exchanges between South Korean and socialist countries.

Incidentally, there has been no North Korean movement as yet to sever its relations with Hungary. In the event North Korea does sever its relations with Hungary, it will find itself compelled to sever relations with other Eastern bloc countries also.

#### Progress in Relations With DPRK Viewed

OW1004193989 Tokyo THE DAILY YOMIURI  
in English 9 Apr 89 p 6—FOR OFFICIAL USE ONLY

["Behind The Scenes" column article by Minoru Hirano: "Thaw in Pyongyang"]

[Text] Japan and North Korea have moved to improve relations.

Prime Minister Noboru Takeshita, before the House of Representatives Budget Committee on March 30, expressed "deep remorse and regret" for the great suffering inflicted on the Korean people by Japan's past subjugation of the Korean Peninsula and called for a start to talks with Pyongyang without any conditions attached.

North Korean officials told Makoto Tanabe, former secretary general of the Japan Socialist Party, during Tanabe's visit to Pyongyang, that they appreciated Takeshita's statement and that they would accept a visit by a Liberal Democratic Party delegation.

Tanabe, before leaving Japan for North Korea, had asked the Foreign Ministry to settle pending issues between Japan and North Korea. He showed the ministry's plans to North Korean officials in Pyongyang.

Japan wants to open the way to relations with North Korea by promoting trade ties first. Just as China, the Soviet Union and East European countries are doing with South Korea. However, this is hampered by Pyongyang's nonpayment of trade bills.

The Japanese government in September 1986 approved payment of export insurance to cover half of North Korea's Y60 billion in bad debts.

However, it then stopped underwriting export insurance for trade with north Korea. Total trade slowed from Y [yen] 100 billion in 1985 to only Y72 billion in 1988.

Now, Japan is ready to resume underwriting trade insurance as soon as North Korea pays its outstanding bills. Then, the Export-Import Bank of Japan will be able to back the traders. The solution to this problem depends on how far Japan eases payment conditions for North Korea.

Another knotty problem is the customs duty on imports to Japan from North Korea. Raw silk from China and South Korea enjoys a preferential tariff of 7 percent while the same product from North Korea is subject to an import duty of 14 percent. Matsutake mushrooms from South Korea are exempt from import duties, but those from North Korea are taxed at a rate of 5 percent. If these import duties are lowered, North Korea will benefit considerably.

At present, about 500 Japanese (mostly businessmen) visit North Korea annually, while 200 to 250 North Koreans come to Japan. Because the Japanese Government issues only single-use passports for people visiting North Korea, a person who wants to visit that country must obtain permission from the Foreign Ministry each time. Moreover, there's sometimes a three-month wait.

Most urgent for North Korea is a direct Pyongyang-Tokyo telegraph and telephone link via satellite. Communications currently go through Beijing. There are only six telephone circuits between Beijing and Pyongyang and three shortwave circuits, so it usually takes as much as three hours to get a connection with North Korea from Japan.

North Korea constructed a communications ground station in 1985 and tested it with KDD. But because the Foreign Ministry and South Korea objected, the Posts and Telecommunications Ministry refused permission to open direct communication with North Korea.

South Korea fears now that North Korea will use a direct link to vigorously publicize the World Festival of Youth and Students, to be held in Pyongyang in July.

Tanabe brought back North Korean responses to be proposed Japanese solutions to these problems.

North Korea in the past said that it will release the skipper and a crew member of the Fujisan Maru No. 18 if Japan surrenders Ming Hong-ku, a north Korean ex-soldier who fled to Japan in the Fujisan Maru No. 18 to seek asylum. During the meeting with Tanabe, however, North Korean officials eased the condition.

They said they would return the two Japanese if Japan made sure the defector does not go to South Korea.

Some flexibility has appeared in Pyongyang, but North Korea still wants more concessions from Japan before relations can warm much.

#### **North's War Reparation Claims Discussed**

OW1104051089 Tokyo SANKEI SHIMBUN  
in Japanese 7 Apr 89 Evening Edition p 1—FOR  
OFFICIAL USE ONLY

[Text] In view of the government's new policy toward the Korean peninsula, the question of war reparations to North Korea (DPRK) for the colonial rule in that country is in the limelight. A reliable source disclosed on 7 April that the North Korean side had submitted an unofficial claim of \$3 to \$5 billion, using the ROK's claim against Japan (a total of \$500 million) as reference. Although the DPRK's Chairman Kim Il-song had indicated to the JSP delegation visiting North Korea that he intended to make the claim, this was the first time a specific figure had been revealed. The same source also said that, regarding the crew of "No 18 Fujisan Maru," North Korea has shown a willingness to resolve the issue

separate from the war reparations question, linking this to trade and economic aid. Serious negotiations are expected to be conducted between the two governments later.

According to this source, North Korea raised the question of war reparations for Japanese colonial rule last September, when the "East Asia Trade Study Group" visited North Korea to discuss the DPRK's repayment of debts to Japan.

The North Korean side told the members of the study group that "there are pending post-war issues between the governments of North Korea and Japan. Apology, not only in words, but also in substantial form is necessary," thus overtly claiming war reparations. Although it avoided citing a specific figure during that session, it explained that "\$500 million had been provided to the South. Compared to that period, the value of currency has changed several dozen folds. We are justified even in claiming \$10 billion. We have also to consider the fact that the population size of the North is half that of the South (about 40 million in the ROK and 20 million in the DPRK)." It thus indicated the intention to claim reparations to the tune of \$3 to \$5 billion.

Furthermore, the same source disclosed that, regarding the issue of releasing the crew of the "No. 18 Fujisan Maru," a source close to the JSP delegation reported that "the North Korean side indicated the intention to ask for trade and economic aid amounting to a few hundred million dollars, apart from war reparations."

The first time North Korea officially brought up the issue of war reparations for the 36 years of Japanese colonial rule before the war was on 11 January this year. While commenting on Japanese-North Korean relations, a DPRK Foreign Ministry spokesman said that regarding relations with Japan, "under the present abnormal conditions, we cannot even meet the Japanese at government level." He indicated that the DPRK would claim reparations.

Talking to the JSP delegation visiting the DPRK on 4 April, although Chairman Kim Il-song commended Prime Minister Takeshita's new thinking on policy to the Korean peninsula, he said that regarding Japanese compensation for its colonial rule, "we may claim it or this may be eliminated through mutual concession. Since there are also the questions of trade and economic cooperation, this may be resolved as a link in the overall issues." In an indirect manner, he indicated the intention to make certain claims.

On the other hand, at the time of the signing of the Japan-ROK Basic Treaty in 1965, the Japanese Government provided a grant of \$300 million and a loan of \$200 million to South Korea as the Korean "claim against Japan," although avoiding the expression "war

reparations." However, the ROK later showed dissatisfaction with this "amount of compensation." When former Prime Minister Nakasone visited the ROK in January 1983, the ROK extracted another \$4 billion in economic cooperation from Japan.

### Southeast Asia

#### Aid Planned for SRV, Cambodia

OW0804132489 Tokyo SANKEI SHIMBUN  
in Japanese 7 Apr 89 Morning Edition p 1—FOR  
OFFICIAL USE ONLY

[Text] On 6 April Prime Minister Takeshita decided to gradually resume aid to Vietnam and the People's Republic of Cambodia (the Heng Samrin government), which heretofore has been suspended. This was disclosed by several government sources. The government plans to provide lateral support for moves to bring peace to Cambodia by resuming aid in stages following 1) the complete withdrawal of Vietnamese troops from Cambodia, and 2) the dispatch of an international observation team to Cambodia. After 10 years Japan is to resume its aid to Vietnam, having suspended it in 1978 when the latter invaded Cambodia. Among the Western countries, Sweden has provided aid to Vietnam. However, Japan's move to resume its aid to Vietnam will draw international attention, since it is the world's top aid donor.

In addition to resuming aid to Vietnam, the prime minister also plans to increase assistance to the democratic Cambodian government (the 3-faction coalition government). The prime minister will transmit this plan to Prince Sihanouk, leader of the Democratic Kampuchean Government, at a meeting to be held in Jakarta, Indonesia, when the prime minister tours the Association of Southeast Asian Nations (ASEAN) in late April.

The government suspended its development aid to Vietnam after it extended a Y10 billion commodity loan in 1979. Since then the government has provided Vietnam tens of millions of yen in disaster emergency aid under the cultural and academic cooperation program, including equipment for the University of Hanoi and a small-scale technological cooperation program.

Vietnam has been in a serious economic situation despite economic aid from the Soviet Union. Therefore, it has informally asked the Japanese Government to resume aid. Then-Foreign Minister Abe announced at the ASEAN foreign ministerial conference in 1985 that "Japan will provide financial and technological cooperation for reconstruction in Indochina after lasting peace is settled in Cambodia." In line with this announcement, the government has not complied with Vietnam's calls for the resumption of aid.

The prime minister decided to resume Japanese aid to Vietnam in stages in the belief that Japan's economic cooperation could play a major role as leverage to bring a political solution to the Cambodian issue. Although Vietnamese Foreign Minister Nguyen Co Thach and Premier Hun Sen of the Heng Samrin government announced on 5 April that Vietnamese troops would be completely withdrawn from Cambodia by the end of September this year, ASEAN remains cautious over Vietnam's real intentions. Since the Japanese Government decided to resume aid to Vietnam based on careful study of the announcement on the complete withdrawal of Vietnamese troops from Cambodia, Vietnam will be compelled to follow through on this announcement.

The specific amount of the aid is under consideration by the government ministries. Initial aid is likely to amount to hundreds of millions of yen, including credit and grant fund aid.

\* MITI Calls for Cooperation With ASEAN  
41060080 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 6 Mar 89 p 3—FOR OFFICIAL USE  
ONLY

[Text] The Ministry of International Trade and Industry (MITI) is calling for ties to the Association of Southeast Asian Nations (ASEAN) in order to promote Asia-Pacific cooperation in the fields of trade, industry, and environmental protection. From the 7th through the 21st, MITI Councilor Muraoka will travel to such ASEAN nations as Singapore, Malaysia, Thailand, and Indonesia to exchange views on ways to advance economic cooperation. Opportunities for Asia-Pacific cooperation are arising, including Australian Prime Minister Hawke's proposal in January to set up a cabinet-level conference, and Canadian International Trade Minister Crosbie's statement that he would participate. MITI is thinking of also seeking the ASEAN nations' views on the possibility of a cabinet-level conference.

Councilor Muraoka is scheduled to meet with Singapore's Trade and Industry Minister Lee Hsien Loong, Malaysia's Trade and Industry Minister Rafidah, Thailand's Commerce Minister Subin Pinkhayan, Indonesia's Coordinating Minister for Economics, Finance and Industry Radius Prawiro, and others.

According to MITI, going into the 1980's, dependency on trade rose for the whole area of ASEAN, the newly industrializing economies (NIEs), the United States, Canada, Australia, New Zealand, China, and Japan, which constitute the Asia-Pacific region; and by 1987 trade had increased by 50 to 70 percent. In the areas of investment, technology, and finance, too, relationships of mutual dependence are strengthening; and networks for goods and services, capital flows, production, and consumption are spreading throughout the region.



As fields for cooperation in the Asia-Pacific region, MITI is considering such things as joint negotiations on trade expansion under the General Agreement of Tariffs and Trade (GATT), cooperation in the area of product development and marketing, and the reduction of trade barriers in accordance with the region's stage of economic development. Other topics up for discussion are providing a base for an international division of labor and an investment climate by such means as cultivating human resources, promoting information systems, and improving distribution systems. MITI also views cooperation on energy policy and environmental protection as important.

Again, as to how to advance concrete cooperation, they say: "In consideration of the multiplicity of stages of economic development within the region, it is important to have no minority take the lead but to proceed slowly, on the basis of general agreement, beginning with areas of high need, and always keeping it open to the outside," (the international trade policy bureau).

To that end, with regard to the idea of a cabinet-level conference, it is their judgment that, rather than turning abruptly to an organization like the Organization for Economic Cooperation and Development (OECD), "it is realistic to create opportunities for cabinet officers handling trade and industry to exchange views informally," (same source). And they say they wish to listen to the views and hopes of the ASEAN nations.

On the concept of Asia-Pacific cooperation, U.S. Secretary of State Baker, too, identifies the United States as a "Pacific nation" and is showing a forward-looking posture.

### Western Europe

#### \* Abolition Sought of EC Restrictions

41060063 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 8 Feb 89 p 5—FOR OFFICIAL USE  
ONLY

[Text] The Japanese Government has taken a strong stand and is seeking complete abolition of import quota restrictions (discriminatory QR's) which are being enforced by the European Community (EC) on 130 Japanese products. Since the various countries will be increasingly wary about matters remaining after market integration in 1992, they are seeking to present a schedule for complete QR abolition in informal Japan-EC talks to be held in Tokyo on the 9th and 10th. The government views this problem as "a test case to see whether the EC integrated market will be open to the outside," (Foreign Ministry official). It is a position on which the Japanese Government is prepared to make an appeal to the General Agreement on Tariffs and Trade (GATT) depending on the EC response.

#### Question of General Principles

"It is a matter of general principles rather than actual economic harm, that goes against the idea of free and equal nations striving for an expanded balance of trade," (Ministry of International Trade and Industry [MITI] official).

The discriminatory QR's which the government regards as a problem were set by the EC countries, who were wary of Japanese imports, as a condition for approving entry when Japan joined GATT in 1955. They are enforced by 10 countries, excluding Great Britain and Ireland. The targets are diverse, including automobiles, motorcycles, televisions, and machine tools.

#### Present Status of Discriminatory QR Against Japan by EC Nations

Country	No of Items	Major Items
France	17	Ceramic tile, knives, radios, televisions, electronic measuring instruments
3 Benelux nations	7	Footwear, ceramics
West Germany	2	Ceramics
Italy	36	Silk products, ceramics, knives, radios, televisions, automobiles, motorcycles
Denmark	2	Knives, spoons
Greece	2	Porcelain, batteries
Spain	41	Glass products, steel products, machine tools, radios, televisions, motorcycles
Portugal	23	Manmade textile products, ceramics, metal products, machine tools, automobiles, motorcycles
Total	130	

Taking automobiles as an example, France, Italy, Spain, and Portugal have established discriminatory QR's. Specifically, France has set a restriction of 3 percent of the number of domestic new car registrations, Italy has set a level of 2,550 for direct import vehicles and 14,000 for indirect import vehicles, and Spain and Portugal, respectively, have set 1,200 and 10,000 as the level for direct import automobiles.

#### Essentially 30 Items?

"Discrimination specifically against Japan alone is offensive and Japan has not given the impression that it is launching an export drive and becoming a threat to other nations," said a Foreign Ministry official, emphasizing the injustice. There is also the view that although there are 130 items, "not even 30 of these items are substantially active." In the current situation, where there is no export record for umbrellas or raw silk from Japan, and since there are many items which have tacit

approval for exports exceeding the limit on a large scale, "It is difficult to understand why it is not right for the various countries to have made it specifically clear."

Be that as it may, that various countries dare to keep QR's is seen as "a judgment that it is more advantageous to take it to GATT than negotiate with Japan unarmed," (MITI International Trade Policy Bureau). The government has repeatedly held talks with individual countries, aiming at complete abolition of QR's. "The result is that Ireland has removed them and Denmark also is wavering," (Foreign Ministry official).

As a tactic to raise its image to entice Japanese business, Italy also just recently worked out a plan to widely relax its discriminatory QR's for 36 items which it had been enforcing against Japan. "Currently, we are working on the three Benelux countries and West Germany, but France, Spain, and Portugal are a problem," (Foreign Ministry official).

#### Abolition List To Be Presented

According to the government, the various EC member countries have put together a plan and it is expected they will present a list for abolition of a total of 30 to 40 items at the Japanese-EC informal talks beginning the 9th. However, if the particulars are that "early enforcement is only for items for which quantity restrictions have historically not been realized, and that an abolition date for major items is not indicated, the government cannot comply," (government sources).

MITI Minister Mitsuzuka made a round of visits in Europe from 30 January to 5 February and, along with expressing concern about Europe's forming an economic block in talks with EC leaders, including commission President Delors, he strongly proposed complete abolition of discriminatory QR's against Japan. As a rule, EC members so far have indicated that import restriction measures independently enforced by the various countries will be abolished at the time of market integration, but they have suggested to the MITI minister that "the four industries of automobiles, steel, shipbuilding, and textiles embrace problems that cannot be resolved by Europe alone and cannot be left to the principle of market competition," (commission Vice President Bangemann), placing them outside the framework of free trade.

Apart from shipbuilding, these very fields are included in the QR's items and actually are the ones for which the Japanese Government has strong concern. "The central issue is automobiles. Even if the four countries discriminatory QR's are eliminated, all will be lost if self-imposed limits on Japanese vehicle exports are established by the whole EC instead," (MITI Machinery and Information Industries Bureau).

Self-imposed limits on the export of automobiles is also enforced in the United States and refusal to comply puts one in a hard situation. So long as Japan has a large-scale trade surplus with the EC, there is a great possibility that the EC will present new demands as compensation to them for abolition of discriminatory QR's. It does not appear that negotiations at the Japanese-EC talks will provide for easy communication of general principles.

#### \* National Firms Expanding European Activity

##### \* Local Reaction Strong

41060064 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 8 Feb 89 p 8—FOR OFFICIAL USE  
ONLY

[Article by reporter Takahashi: "Subsidies to Semiconductor Manufacturers Criticized"]

[Text] London, 7 February—The decision by Toyota Motor Company, Ltd. to place a factory in England has sparked local hostility to direct European investment by Japanese enterprises, and investment friction has emerged as a big problem. On 6 February Mr Pistorio, chairman of the French-Italian joint-venture semiconductor manufacturer SGS-Thomson, criticized the subsidies paid by European governments to Japanese semiconductor manufacturers placing plants in Europe, calling them a mistake. He was fully cognizant of the Fujitsu decision to begin full-scale integrated manufacture of semiconductors in England. The Italian Minister of Foreign Trade is also condemning England for agreeing to the incursion by the Toyota factory.

Fujitsu Limited, Hitachi Ltd, Toshiba Corporation, and Nippon Electric Company, Ltd. are already producing locally in Europe, and following Nippon Electric, Fujitsu also plans to begin full-scale integrated production in England. Other major manufacturers also have started to plan for full-scale production in order to secure approval as "products of the EC."

European manufacturers of semiconductors only have less than a 10-percent share of the world market. The three largest European producers, SGS-Thomson, Siemens (West Germany), and Philips (Netherlands) agreed to develop the next generation semiconductor jointly and have just begun rollback tactics to deal with the United States and Japan. Thus, an invasion of factories of large Japanese semiconductor manufacturers now sets their nerves on edge.

However, it is very difficult for them to directly criticize the overseas investments by Japanese firms, so they indirectly criticized Japan by denouncing the British Government which is considering granting subsidies to Toyota.

Mr Ruggiero, Italian minister of foreign trade, criticized the British Government's policy of agreeing to these investments, saying "Great Britain, in dispensing regional subsidies to these competitive (outsider) firms, and in trying to launch an export offensive against the other European nations, is going too far."

Momentum is gathering for direct investment in the EC countries in order to avoid trade conflict and to deal with the creation of a single EC market in 1992. But, since revelation of the Toyota plan to move into England, Japanese firms have begun to feel increased criticism,

including the indication by the Commission of the European Community that it too intends to take a tough stance on approval of regional subsidies by the various governments. A situation where wariness toward the advances of Japanese firms into Europe and internal conflicts within Europe itself are intertwined can lead only to friction.

**\* Fujitsu Plant Planned for UK**

41060064 Tokyo SANKEI SHIMBUN  
in Japanese 3 Feb 89 p 8—FOR OFFICIAL USE  
ONLY

[Fujitsu Moves to Full-Scale Manufacture Anticipating 1992 Single EC Market]

[Text] On 2 February it was announced that Fujitsu is promoting a plan to construct a factory for full-scale integrated production of semiconductors in England. Fujitsu already has plants for semiconductor assembly and inspection processes in England and Ireland, but the aim of this new plant is to deal with the increasingly strong possibility that, with the creation of a single EC market in 1992, the definition of local production of semiconductors will be limited to "those items which are totally locally produced, as opposed to those which are preprocessed elsewhere."

At present, in addition to Fujitsu Limited, Nippon Electric, Hitachi Ltd, and Toshiba also have semiconductor plants in Europe. However, those of Hitachi and Toshiba are only assembly and inspection plants, and both firms, like Fujitsu, want to build factories for full-scale integrated production and are currently studying the issue. It also appears that there will be a very lively move into Europe by other semiconductor manufacturers, such as Mitsubishi Electric Corporation.

In order to establish a fully integrated production system by the time a single EC market is created, Fujitsu has been studying the selection of a plant site and so forth since last year and expects to make a formal decision this year. The details are not yet firm, but their plan calls for the production of ASICs (Application Specific Integrated Circuits), not just memory circuits, and the full-scale production system will be established by the addition of new preprocessing plants.

Both Toshiba and Hitachi have just begun to study the issue, but desire to start production before 1992; the outlook is that they will select construction sites this year and begin construction in 1990.

Furthermore, Nippon Electric, which already has a full production plant in England, in addition to moving to increase production of 1-megabit DRAM's [dynamic random access memory] (memory that can be read or written on and which is necessary for storage maintenance operations) also plans to begin production of ASIC's within the year.

A major factor in this kind of movement by the various semiconductor makers is their belief that things not fully produced within the EC will not be approved as EC products and the prospect that products that are only assembled within the EC will be subject to duties levied at the same rates as for imported products.

**Danish Ambassador on Bilateral Relations**

OW1704080589 Tokyo ASAHI EVENING NEWS  
English 15 Apr 89 p 2—FOR OFFICIAL USE ONLY

[Interview with William Thune Anderson, Danish ambassador to Japan—date and place not specified]

[Text] Question: The Danish Foreign Minister Uffe Ellemann-Jensen visited Japan early this year. What was the purpose of his visit?

Ambassador: Generally, the visit of the minister should be seen as an expression of the strong bilateral relations between Denmark and Japan. More specifically, both countries had an interest in exchanging views on prospects for the European single market of 1992 and the promotion of free global trade and a number of other issues.

Q: During his visit, the foreign minister presented a new program for direct Japanese investments in Denmark. How are in your opinion the prospects for Japanese investment?

Ambassador: Excellent. We think there are very good reasons why Japanese companies considering investment in Europe should include Denmark in their feasibility studies. The fact that we have a trade surplus with Japan and that the volume of trade between our two countries is high (Denmark is Japan's fifth largest trade partner in Europe) underlines our high technological level and high-quality products, which meet the Japanese requirements.

Q: Mr. Ambassador, so far you have mainly spoken about the economic relations between Denmark and Japan. Are there other areas of the relationship which you would like to mention here?

Ambassador: I should first like to stress the close relationship that exists between the Imperial family of Japan and the Danish Royal family. This was reaffirmed by the participation in the funeral ceremony for His Majesty Emperor Showa by His Royal Highness Prince Henrik, the Prince Consort.

Another fact is that the number of Japanese researchers and exchange students in Denmark and vice-versa is growing and so are cultural exchange programs.

We, the Danes and the Japanese, also seem to show a preference for simplicity in life style. This is, by the way, part of the reason for the success of Danish designs in



Japan. Also, there is a growing mutual recognition of our respective arts and crafts. Finally, let me mention that 30 percent more Japanese tourists visited Denmark last year than the year before.

**\* MITI Promotes Mutual Investment With France**  
41060083 Tokyo SANKEI SHIMBUN  
in Japanese 28 Feb 89 p 9—FOR OFFICIAL USE  
ONLY

[Article: "Japan-France Mutual Investment Promoted"]

[Text] Seeking to stimulate mutual investment activities between Japan and France, MITI (Ministry of International Trade and Industry) has decided to ask a number of younger businessmen to join a group called the "Committee to Promote Investment Between Japan and France." The purpose of the new committee will be to hold meetings between the two countries aimed at improving relations between MITI and its French counterpart. Upon his recent return from France, Mr Mitsuzuka, head of MITI, stressed the importance of having the committee's activities conducted on a strictly private-sector basis, and nominated Akio Morita, president of Sony, as a candidate for the committee's chairmanship. Adopting a policy of greater Japanese-French understanding, MITI is planning to convene the first meeting with the French this summer. Slated to be held annually, these private-sector conferences will have their base in the government-sponsored Committee for Industrial Cooperation Between Japan and France.

France is moving toward a more open economic policy and plans to join the European Community in 1992. By rescinding the various controls that the Ministry of Economy, Finance, and the Budget has placed on formation of new enterprises, the French are expecting more investment from foreign firms.

These developments indicate a new direction for French economic policy, particularly with regard to Japanese investment. In a meeting with Mr Mitsuzuka on the second of this month, Mr Faure, Minister of Equipment and Housing, revealed that his country would welcome Japan as an economic partner when he stated, "There is no problem with Japanese electronics companies and other firms operating in France."

On the other hand, in light of the problems Nissan and Toyota have experienced with their move into England, Japan is approaching the matter with restraint.

According to JETRO (Japan External Trade Recovery Organization), direct Japanese investment in France totaled \$330 million, about twice the \$152 million invested there during the previous year. This is still only one-seventh of the \$2.473 billion Japan invested in England, and only 5 percent of the \$6.576 billion invested in all of Europe. France has taken note of the problems experienced by the English with regard to the local parts content agreement at Nissan's factory there, which produced cars for export to France. The French also have been irritated by Japan's foreign investment practices as evidenced by their refusal to recognize cars produced at Nissan's English factory as being of European manufacture.

As a result of these events, Mr Mitsuzuka and Mr Faure have agreed on the need to work toward mutual understanding through private-sector meetings by agents of the organizations directly involved. Plans for the first such meeting will be discussed at the conference of the Committee for Industrial Cooperation Between Japan and France to be held in Paris on 16 and 17 March.

Akio Morita, president of Sony, will act as chairman of the Japanese delegation which will be composed of representatives of major Japanese industries as well as many younger businessmen who will help set the tone of Japanese-French economic relations in the coming generation.

## Military

### Defense Agency's Arms Outlays Hit New High *OW1004160089 Tokyo MAINICHI DAILY NEWS in English 9 Apr 89 p 15—FOR OFFICIAL USE ONLY*

[Text] The Defense Agency has announced it spent a record 1.39 trillion yen on defense contracts in fiscal 1988, as outlays for the FSX jet fighter helped boost the agency's expenditures by 10 percent over the previous year.

The largest outlays went to Mitsubishi Heavy Industries Ltd., the main contractor for the proposed U.S.-Japan FSX fighter plane project.

It received 364.2 billion yen, up 100 billion yen from year. [as published] Kawasaki Heavy Industries was second with 150.3 billion yen and Mitsubishi Electric next with 100.8 billion yen.

The 1.39-trillion-yen total covered 10,718 contracts, a 125.4 billion yen rise over fiscal 1987. Though about 200 companies have signed contracts of over 100 million yen, the top 10 contractors comprise 67.5 percent of the total.

Defense Agency officials cited large expenditures for the FSX program and the Aegis ship-to-air weapons system as responsible for the 9.9 percent rise.

### Ground Forces To Expand Artillery Facilities *OW1404142589 Tokyo THE DAILY YOMIURI in English 13 Apr 89 p 1—FOR OFFICIAL USE ONLY*

[Text] The Defense Agency announced Tuesday that it will stop using Ground Self-Defense Force [GSDF] exercise facilities which restrict the use of long-range artillery, in exchange for new expanded training grounds as part of its "next generation defense force preparation plan" beginning in 1991.

The GSDF plan will introduce large quantities of long-range artillery in a strategy shift from inland defense and counterattack to forward deployment and shoreline engagement, GSDF officials said, adding that exercise fields able to accommodate long-range artillery were a "necessity."

The shift of GSDF exercise fields and posts around the country is expected to have an effect on the municipal governments of all involved localities with respect to local development and environmental protection plans.

Currently, the GSDF maintains a total area of about 80,000 hectares in practice fields around the country at 72 locations. The largest of the fields is the approximate 17,000 hectare Yausubetsu exercise facility in Hokkaido,

but long-range firing there is limited to about 18 kilometers, GSDF representatives said. Other fields able to facilitate firing of long-range artillery include only two facilities which can handle distances of about 10 kilometers, with the remaining fields only able to accommodate a maximum range of a few kilometers.

Current training fields greatly restrict testing of the newest howitzer and testing of new tanks, they said.

The GSDF said they will reduce the number of shorter range practice fields, purchase new fields large enough to accommodate long-range artillery, or expand existing fields.

According to the GSDF, exercise facility development plans call for six "large," 15 "medium," and 51 "small" training fields.

## Political

### Recruit Scandal Weakens Takeshita's Leadership

#### \* Reform Panel Questions Leadership *WA0504000400 Tokyo TOKYO SHIMBUN in Japanese 17 Mar 89 p 2—FOR OFFICIAL USE ONLY*

[Excerpts] Prime Minister Takeshita's private advisory panel, the "Committee of Learned Men for Political Reform," (headed by Shuzo Hayashi, former director of the Cabinet Legislative Bureau) met on 16 March for the fifth time to conclude discussions "focusing on the Recruit affair," which has taken up the last two sessions. The majority of panel members want to make it clear that the Recruit affair demonstrates the necessity for political reform and have urged Takeshita "to take a stand" on this issue. Takeshita indicated that he would make public his beliefs after taking into consideration the timing and outcome of the Recruit investigation. His leadership has been increasingly questioned as faith in his handling of the political situation has dwindled.

During the fourth and fifth meetings of "the Committee of Learned Men," which concentrated on discussion of the Recruit affair, members expressed their distrust of other politicians as well as Takeshita, and stressed the urgency of formulating political ethics laws and instituting political reform. There were specific proposals made at these meetings.

To begin with, the members want Takeshita to do his best to clarify the Recruit affair and to lead the Recruit investigation. This was followed by other proposals:

"The prime minister should apologize to the people rather than resort to resignation or to a general election. He should resolve the Recruit matter even if he has to risk his political life. He should be persistent."

"The cabinet appears to be at a loss about what to do. It should make up its mind and deal with the situation, setting aside the question of [Diet] dissolution."

"First of all, the prime minister should bring the entire Recruit matter to light and make a distinction between right and wrong. Then and only then should he proceed with political reform." "The people want the prime minister to give it his best shot, as if he were playing sports. They also want him to be prepared to make a costly sacrifice for the cause of justice." [passage omitted]

The majority of panel members voiced their dissatisfaction with Takeshita and the inaction and negative attitudes of politicians, accusing them of leaving the Recruit affair to the investigative authorities. At the 16 March meeting, members of the advisory panel asked Takeshita to take a definite stand and do something. [passage omitted]

It is not clear what they want Takeshita to do in "taking a definite stand," but it appears that members want Takeshita to "reflect and apologize," while clarifying the cause of the scandal, and to implement measures to prevent this kind of scandal from recurring.

There were suggestions as to how to prevent the recurrence of such a scandal:

"Cabinet ministers as well as parliamentary vice ministers should not engage in stock transactions while in office. The annual disclosure of personal assets and adherence to principles of political ethics should be observed."

"In a period of prolonged conservative political power, the escalation of spending by politicians on gift-giving, such as for weddings and funerals, causes rivalry and discord among politicians. Therefore, gift-giving should be banned and offenders should be punished."

Other suggestions included: 1) establish fundamental political ethics laws, including punishment measures; 2) expand the scope of asset disclosure by politicians; 3) strengthen political funds legislation and the Securities Exchange Act; and 4) set up an ombudsman system.

Moreover, public responsibility was pointed out: "Money politics are caused by the people as well as by politicians. Purification of the nation is necessary. Campaign funds and wasteful political spending, such as sending cards, telegrams, advertising posters, recommending jobs, and giving wedding gifts should be prohibited. People often buy tickets to political parties out of a sense of obligation, even though they do not like it. We should put a stop to this kind of activity."

Some urged Nakasone's testimony in the Diet.

Panel chairman Hayashi will take into account all suggestions and proposals, which certainly will constitute a strict agenda for political reform, and will "convey them to the prime minister in person." Takeshita's response and his resolve to pursue political reform will be tested.

### LDP Concerned Over Ties

OW0904230389 Tokyo ASAHI EVENING NEWS  
in English 8 Apr 89 p 2—FOR OFFICIAL USE ONLY

[Text] The disclosure on Friday that Prime Minister Noboru Takeshita received a Y [yen] 25 million contribution from Recruit Co. in 1986 in addition to the sum of Y50 million he received in 1987 is viewed as critically damaging to his leadership capacity within the ruling Liberal-Democratic Party (LDP).

Expressing this view, a senior LDP official said, "The Takeshita government has been imperiled all the more."

The latest revelation on Recruit's donations to Takeshita came as a shock to LDP Diet members. "I'm just dumbfounded," a junior member of former Finance Minister Kiichi Miyazawa's faction said. "No matter what explanations the prime minister offers, they sound hollow," he added.

A middle-ranking member of LDP Secretary-General Shintaro Abe's faction saw the disclosure of the 1986 donation as a "mortal wound" to Takeshita. "The prime minister may have used various techniques (in receiving the contributions from recruit)," he said, "but essentially, what he did was to use the loopholes."

Aides to Takeshita and some senior members of the Takeshita faction protested that it was not fair to single out the prime minister for criticism since all the intra-party factions had been engaged in practices similar to what he did.

But the majority of LDP lawmakers coldly reacted to the arguments in defense of the prime minister. "Their arguments are not simply understandable to the public," a junior member of the Miyazawa faction commented.

What is worse for Takeshita, the latest disclosure is widening the intra-LDP schism over the question of summoning former Prime Minister Yasuhiro Nakasone for testimony before the Diet on his role in the Recruit scandal. Senior officials of the Nakasone faction are even "delighted" that the prime minister's crisis serves to take heat from the testimony issue.

The Recruit donations to Takeshita have fueled intra-LDP concern over the electoral impact of the Recruit scandal. "As long as Mr. Takeshita is our leader, there is no chance for the party in this summer's Upper House and Tokyo Metropolitan Assembly elections, let alone in a Lower House election," a member of former State Minister Toshio Komoto's faction said.



**\* Speculation on Fate of Cabinet**

41050067 Tokyo BUNGEI SHUNJU in Japanese  
Mar 89 pp 262-266—FOR OFFICIAL USE ONLY

[Article by Taro Akasaka]

[Text] The prime minister has given strict orders to those around him to "Investigate and report back the source of the news leaks." Justice Minister Takashi Hasegawa, the key appointment in the cabinet reshuffle that took place late last year, had to resign only 4 days after assuming office when it was revealed that he had accepted political contributions from Recruit. Where did this well-aimed punch come from? Takeshita's face was crimson with anger and regret.

Hasegawa himself could not hide his bewilderment: "What is happening, nothing makes sense. Life is a succession of storms. My mind still can't grasp what has happened. The appointment as minister of justice was itself totally unexpected, and now to have to resign so soon! It all took place in a flash. As to the source of the information, I hear many theories. I can't tell which one of them is true."

"The news source appears to lie in the Special Investigation Division of the Tokyo District Public Prosecutor's Office (DPO). At least that office did not issue a denial in response to questions from the mass media. Apart from KYODO, it is almost certain that all the others published the story simultaneously after confirming it with the DPO."

With his hands folded, Takeshita was silent after hearing this report from those close to him. A chill traveled down his spine with the realization that his premonition had come true. If the Special Investigation Division of the Tokyo DPO had leaked the news intentionally, it would mean that the prosecuting agency had itself fired its immediate superior, the minister of justice, against the will of Takeshita who had made the appointment. The situation might develop into a scandal on a scale as had never been heard of before.

"A series of reports by the mass media on the Recruit scandal suggest a design behind their content and timing. The only source capable of implementing such a design is the Tokyo DPO which is in possession of all the facts. I cannot believe this, however, since such action is inconsistent with the regular course of an investigation. If there were really an intentional leak, it would be nothing less than a 'prosecutor's fascism,' a manipulation of the mass media through abuse of the rights of investigation."

One of the officers of the Takeshita faction has criticized the prosecutor's office in angry tones, adding further: "This kind of comment cannot be made publicly, for it gives the impression that the circle around Takeshita is trying to 'exert pressure' on the investigative effort. Besides, since the mass media will in no way reveal their source, the truth will never be known."

The government and leaders of the LDP [Liberal Democratic Party] have always suspected that the public prosecutor's office may be maneuvering the mass media through leaks. Especially after the forced resignation of Hisashi Shinto, the chairman of NTT (Nippon Telegraph and Telephone), the suspicion turned into almost a conviction.

While the NTT scandal has been at the core of the Recruit investigation, Chairman Shinto has built a protective wall. Did "Shinto's ex-secretary act on his own" as Shinto claimed when he sold Recruit Cosmos stocks under his name and deposited approximately 22 million yen profit? Shinto's "involvement" was not immediately believed, for he had been the individual in the vanguard of the democratization of NTT and had borne an image of "uprightness" inherited from his mentor, the late Toshio Doko, an ex-chairman of the Federation of Economic Organizations.

The fact that 9 million yen out of 22 million yen deposited in the account of Shinto's ex-secretary, Kozo Murata, had immediately been shifted into Shinto's personal account and the remaining 13 million yen had flowed into the "secret account" controlled by the NTT secretariat was exposed. Murata could not have single-handedly executed such transactions. Shinto's "involvement" has become almost certain and he has had to resign at last.

The important point is that this fact was known to only a small number of persons including Shinto. There has been persistent speculation that the news sources for the series of scandalous reports were "complainers from inside the Recruit company." However, Recruit insiders might have been able to gain knowledge up to the point of payment into Murata's account, but not of the flow of money after that. Takeshita's circle has surmised that the news source had to be in the public prosecutor's office unless it were in Shinto's circle itself. Hasegawa's case has strengthened their suspicion almost to a certainty.

**Takeshita Cabinet Stands at Edge of Cliff**

Masami Takatsuji, former director of the Cabinet Legislation Bureau and former judge of the Supreme Court, has assumed the post of Minister of Justice from outside the Diet. This was a humiliating personnel matter for Takeshita. Although Takatsuji is an elder in judicial circles, his appointment has revealed the disgraceful fact that "a member of the Diet may have undesirable involvement with Recruit so that one should not be selected when there is no time for a thorough background investigation," (according to an LDP leader): Takeshita's first choices for the replacement, Miho Yasuhara, former chief justice of the Supreme Court, and Ichiro Kato, former president of Tokyo University, both turned the offer down.

As if this were not enough, large contributions from Recruit to the director of the Economic Planning Agency, Ken Harada, came to light on 24 January so that Harada had to resign immediately. The turmoil around Takeshita was beyond description following the resignation of yet another official, despite the fact that Koichiro Aino was selected to fill the post on the same day Harada's resignation took place.

"I alone am to be blamed." So Takeshita greeted the new year with heavy heart. The series of unlucky events began when Takeshita had to cancel his planned visit to the United States given, the "unpredictable" state of the emperor's illness. Even worst has been the resignation of five cabinet members since the appointment of the Takeshita cabinet little more than a year ago. Moreover, those who resigned were not ordinary ministers. With the exception of Director of the Defense Agency Tsutomu Kawara, who resigned after taking responsibility for the sinking of a large tourist fishing boat when it collided with a submarine of the Maritime Self-Defense Force, the casualties have been prominent members of the cabinet, ranking number 2 or 3: Director of the Land Agency Seisuke Okuno, Vice Prime Minister and Minister of Finance Kiichi Miyazawa, Minister of Justice Hasegawa, and Director of the Economic Planning Agency Harada.

Okuno's appointment was to have been the focal point in promoting "the hometown creation" movement and the policy for land prices. Miyazawa was to have been in charge of the "tax reform" on which Takeshita's fate depended. Harada's selling point was his "brilliant" achievement as the chairman of the Special Committee Investigating the Recruit Problem in the House of Representatives. Hasegawa was to be in charge of resolving the Recruit scandal and carrying out further "political reform." Everyone of these came on stage representing featured policies of the Takeshita cabinet. This situation is an abnormal one that would ordinarily necessitate the resignation of the entire cabinet or a general election following the dissolution of the Diet to ask for a vote of confidence.

The plummeting support for the cabinet in opinion surveys has been distressing. Results of opinion surveys have indicated that support has fallen to 20-25 percent; some have even shown less than 20-percent support. These results indicate the last stage of an administration that has obviously been forsaken by the public. "Mr Nakasone (previous prime minister) used to say 'one should not worry about opinion surveys, for they change unpredictably as in Up/Down Quiz [a TV program].'" While saying that he "is not disturbed," Takeshita fully realizes that he stands at the edge of a cliff.

"The causes for the plummeting support level must be the introduction of the consumer tax and the Recruit scandal. Tax reform was especially to have been the mission of the Takeshita cabinet and would have had to be carried out in full expectation of some loss of support.

The level of support will recover when the public comes to understand the consumer tax and when the Recruit scandal is resolved in the hands of the judiciary. Even then, the degree of loss has been beyond my imagination."

The impact on Takeshita's circle has been greater. Some of those close to Takeshita have seriously said: "This could be the end of the Takeshita cabinet. We can find consolation in the fact that the tax reform has been accomplished."

While Takeshita has enjoyed an overwhelming stability in the political world of Nagatacho [equivalent of Capitol Hill], the fact is that this does not count for much given the judgment handed down by the public. His basic strategy of managing the election for the House of Councillors this summer, and then being reelected as prime minister in the party election this fall, has begun to go awry.

#### Gotoda's Advice

Leaders of the Takeshita faction, Deputy Secretary General Ryutaro Hashimoto, Chief Cabinet Secretary Keizo Obuchi, and Assistant Cabinet Secretary Ichiro Ozawa, have been busy racking their brains trying to reformulate strategy while frequently counseling Shin Kanemaru, faction president and ex-vice prime minister. The outcome is the execution of "political reform" as advanced by Masaharu Gotoda, president of the LDP's Election Systems Research Council.

Gotoda has frequently advised Takeshita since the exposure of the Recruit scandal.

"Do not underestimate the Recruit scandal. Some in the Takeshita faction foolishly think 'Takeshita's reelection as prime minister has become secure' now that 'the real target is the Nakasone faction,' 'no chance is left for Miyazawa,' or 'Abe's reputation is soiled by Recruit,' such speculation is preposterous. At the worst, it may be fatal to the Takeshita cabinet. The only way left is to put into practice a drastic political reform for the realization of a political career that does not require money. Otherwise, the coming House of Councillors election may produce a crashing defeat."

At first Takeshita did not show much interest in the idea since he has been a politician who has felt uncomfortable at raising policy matters to the forefront. At one time the administration assumed a stance of squarely dealing with political reform by establishing the post of "special minister" in Takeshita's reorganized cabinet. This idea was readily dropped, however, when Gotoda, Takeshita's intended candidate to the post of "special minister," declined the offer upon meeting strong opposition from the Takeshita faction. An eager attempt to select Masayoshi Ito, present chairman of LDP's General Council with no ties to Recruit, an exceptional feat among

administration and LDP leaders, who has maintained a good relationship with Gotoda, also did not materialize because of considerations of the Miyazawa faction.

Whatever might have been the reason for not filling the post, it would not have been impossible to do so had Takeshita really believed in the idea. Obuchi kept saying that "the prime minister means it," the reaction of the mass media just turned cool. Hasegawa's resignation from the post of minister of justice, however, gave real impetus to the move. The perception was that a serious effort to grapple with political reform would directly correlate not only with recovery of public support, but also would bear an important influence on the prosecuting office's "convictions."

The significance of "leaks from the Special Investigation Division of the Tokyo DPO" was as great as illustrated above. While undeniably a "challenge" to the cabinet, not only could the cabinet not do anything about it, but it also had to interpret it as "a sign that signals something is going on."

Takeshita designated 1989 as the "first year of political reform" declaring that he would give it his best effort. The cabinet established a "Council of Wise Men" as Takeshita's consultative organization. The LDP has newly established a "Political Reform Committee" directly under the party president. Gotoda will be the natural choice for committee chairman.

Such new systems—the prime minister directing at the helm or utilizing a consultative group such as the "Council of Wise Men,"—do not, as expressed in his words, "leave tasks in the trust of each responsible agency," something that is alien to his original political style. Seemingly Takeshita has been reluctant to make this shift, particularly since the style in question had been the one favored by his predecessor, Nakasone. Takeshita has considered that he differs from Nakasone in his steadfastness and has viewed Nakasone's "acrobatic acts" as dangerous.

However, the circumstances have become so urgent that Takeshita's attitude has had to change. Those close to him have strongly urged a change in the image that he has projected.

"Both prime minister and chief cabinet secretary are quiet types. Assistant Cabinet Secretary Ozawa also gives the impression of being a 'behind the scenes man' who supports the actors. There are no performers in the Takeshita cabinet. At this rate public support cannot improve. 'Braintrusts' or 'advisory groups' become necessary at times to advance ideas and to express the prime minister's intentions."

This has been a religious conversion, so to speak. It was a part of a reformulation of strategy. Takeshita's "clear in speech, unclear in meaning" image continues as usual so that his press conferences do not make the lead article

in newspapers. When Takeshita makes "street corner speeches" out on a tour, the effect is the opposite of what is desired, emphasizing his lack of personality and his small stature.

The Nakasone cabinet had proved that skillful "diplomacy" and top-down "leadership" were the factors that lead to increased public support. The consensus of those close to Takeshita is that it is difficult to regain public support that has fallen this low with steadfastness alone, Takeshita's hallmark.

Takeshita, however, does not have a network of people that could be considered a "braintrust." It is doubtful if Takeshita is capable of performing without borrowed wisdom. It is ironic then that Takeshita will undoubtedly be forced to perform an act of political management comparable to a "tightrope walk" depending on the way the investigation of the Recruit scandal progresses.

#### What Is the Aim of the Diplomacy of Condolence

Emperor Hirohito died in the early morning of 7 January at Fukiage Palace. Prince Akihito succeeded him as the new emperor. On the next day, the 8th, the "Showa" era changed to "Heisei."

Takeshita explains the new "Heisei" era as follows: "It signifies our wish that peace will prevail within and without our country. It is a most suitable designation for the new era that is about to begin."

"Heisei" is not euphonious in sound and lacks in strength as well, but appears to be in harmony with Takeshita's taste. However, the public seems favorably disposed to the name, so it may quickly become well established.

"The cabinet would like to be cast in as favorable a light as Heisei is." This senryu [short, satirical verse] was reportedly written in a self-mocking mood by Chief Cabinet Secretary Obuchi. The verse also betrays Obuchi's complicated psychological state.

More than 240 representatives, including heads of state and prime ministers, from over 130 nations across the world will attend the "mourning ceremony" to be held on 24 February. In particular, it will be the first trip abroad for the new U.S. President Bush who is scheduled to attend with incoming Secretary of State Baker.

The diplomatic act of offering condolence will take place on unprecedented scale with the gathering of foreign dignitaries including Queen Elizabeth's consort, the Duke of Edinburgh (Prince Philip), who will attend despite domestic opposition, President Weizsacker and Vice Chancellor and Foreign Minister Genscher, President Aquino of the Philippines, and President Suharto of Indonesia.



This is a reflection on the personality of the Showa emperor, the unique position of royal family diplomacy, as well as the international status of Japan as a "major economic nation." Since it will be an "internationally unprecedented major funeral," (a high-ranking Foreign Ministry official), the government has been in a state of constant tension, surrounded by a mountain of difficult problems.

The biggest problem, however, will be the miserable state of the political climate in Japan as it awaits many foreign dignitaries who will be guests of the state.

The low public support that suggests the terminal state of an administration smeared by the Recruit scandal, an immature democracy that must cry loudly for "political reform"—the contrast between the glittering guests and political reality is a too glaring one.

Takeshita's circle secretly expects the diplomacy of condolence to serve as the "springboard" that will buoy the administration, while acting cautiously so as not to be accused of "making political use of the royal family." The Tokyo DPO also must act carefully until the "mourning ceremony" is over, lest its moves throw Tokyo into turmoil. Scheduled investigations into politicians' entourages including the secretaries of Diet members, had to be postponed.

Takeshita and his circle would like to make "diplomacy" an important strategic axis for his reelection to the premiership by linking a series of his diplomatic activities, the visit to the United States, the diplomacy of mourning, the summit meeting (the conference of heads of state of advanced nations) that will take place before the election to the House of Councillors this fall, as well as the visit by Gorbachev, general secretary of the USSR, to Japan.

The curtain is about to rise on Takeshita's diplomatic performance. For those close to him, there are endless causes for anxiety, for example, "the hope that he will not lose his step while walking the tightrope."

#### **Lack of Action Deplored**

OW1404141689 Tokyo THE DAILY YOMIURI  
in English 13 Apr 89 p 6—FOR OFFICIAL USE  
ONLY

[YOMIURI SHIMBUN 12 April editorial: "Takeshita's Defense"]

[Text] Prime Minister Noboru Takeshita admitted that he received a total of Y [yen] 95 million from Recruit Co. and its affiliated firms in political donations and in tickets sold for fund-raising parties.

Also in his statements before the House of Representatives Budget Committee, he admitted profits resulting from the sales of Recruit Cosmos shares by those close to him and from sales of tickets for another party in Iwate-ken came to Y 56 million. Thus, the total was Y 151 million.

Takeshita insisted that the political donations were properly handled in accordance with the Political Funds Control Law.

But it should be noted that an abnormally large amount of money was contributed in a short period between 1985 and the summer of 1988. This proves defects in the law.

Most certainly the political and moral responsibility of Takeshita, as the top political leader, must be questioned. But we believe Takeshita's response to the grave situation was lukewarm. He made no full disclosure until the pressure was too intense to resist.

It is deplorable that a prime minister must make excuses and be questioned on such matters.

#### **Lack of Action**

The opposition parties demanded that the Takeshita cabinet resign en masse and call a lower house election on the grounds that Takeshita was not qualified to carry out political reform. He replied that his cabinet would make every effort to implement reforms.

We gained the impression from Takeshita's performance in the Diet that he does not intend to take concrete, decisive action in this political crisis. Takeshita should propose bold political reform measures and then seek the judgment of the people.

According to the Political Funds Control Law, political parties and politicians must make clear where funds come from and how they are spent. The law says that political activities must be conducted "under the regular supervision of the people."

However, politicians have found loopholes in the law. There is no requirement to report names of donors whose contribution is less than Y 1 million. Since there was no mention of Recruit on Takeshita's fund records, we have no doubt that this loophole was used. However, this violates the spirit of the law.

#### **Crisis for Democracy**

In discussing the fund-raising parties, opposition interpellators pointed out that Recruit Cosmos purchased 1,000 tickets but its employees numbered only 600. Takeshita admitted this ticket purchase went beyond the bounds of common sense.

However, in Diet questioning, the opposition parties only demanded the en masse resignation of the cabinet and resolution of the House of Representatives and did not make solid proposals for political reform. We also deplore the insistence of the opposition parties to postpone the committee session by one day on the grounds that there was not enough time to prepare for interpellations.

The Diet should thoroughly discuss methods for political reform and urge the government to carry out political reform.

The problem of large amounts of money contributed to politicians has created a crisis for democracy. However, we cannot ignore that the boycott of opposition parties of deliberations on the fiscal 1989 budget also has plunged our democracy into a crisis.

**Takeshita's Resignation Called For**  
OW1404101889 Tokyo THE JAPAN TIMES  
in English 13 Apr 89 p 18—FOR OFFICIAL USE  
ONLY

[Editorial: "Those Tainted Must Go"]

[Text] "Patience," perseverance, "fortitude"—the Japanese equivalent to all these words is "nintai" or "gaman"—it describes a highly difficult virtue. It usually carries the connotation that the human qualities represented by the English words should be displayed in fighting whatever hardship or difficulty must be overcome.

Prime Minister Noboru Takeshita, however, has been giving the word quite a different meaning. His "patience," "perseverance" and "fortitude" appear to be synonymous with "insensibility" to ethical responsibilities, or with "arrogance" sugarcoated with soft-sounding but almost meaningless expressions, or "clinging to power."

Therefore, not only the mass media but also most Japanese now are convinced that Mr. Takeshita is determined to hang on to his position by quibbling about the intensifying attacks against him and his administration, all grossly tainted in the Recruit scandal. Mr. Takeshita's remarks in the Diet on Tuesday [11 April], when he tried to evade the opposition's attacks against his involvement in the scandal, only served to confirm this.

Mr Takeshita admitted that he, his political organizations and persons close to him received a total of Y [yen] 151 million from the scandal-ridden Recruit group of firms between 1985 and 1987. Most of the donations were made through a variety of channels and in small, separate amounts, apparently in an attempt to keep them from showing up conspicuously in the account books.

Moreover, the huge sum included Y20 million from Recruit Co. and Y30 million from its Recruit Cosmos subsidiary for the purchase of tickets to Takeshita fundraising parties.

The public was not impressed by his disclosure of these donations. On the contrary, people were disgusted at what is indicated by the contribution of such a huge sum by a single group of companies to one politician. It has raised the strong suspicion that Mr. Takeshita himself was one of the central targets in the Recruit strategy of virtually buying up the entire government.

Mr. Takeshita said that these donations had been handled in line with the Political Fund Control Law. He also said he is keenly conscious of political and ethical responsibilities, but he rejected the opposition demands that he resign to take responsibility for his dubious links with Recruit. He instead stressed that he is determined to persevere until the situation turns favorable to allow him to carry out needed political reforms, indicating that it was his way of taking responsibility.

His self-complacency reminded us all the more strongly that important members of his cabinet, including former Finance Minister Kiichi Miyazawa, had stepped down from their respective posts to take responsibility for accepting for smaller Recruit funds than the sum given Mr. Takeshita. Many people are angrily wondering why only the prime minister can stay on.

Under his short-range strategy, Mr. Takeshita apparently intends to launch political reforms (whatever they may be) while continuing to reject the opposition demands for en-bloc resignation of the Cabinet or dissolution of the lower house and to seek the voters' mandate in the scheduled upper house election in the summer.

In the eyes of the majority of the people, however, Mr. Takeshita is tainted so deeply that he is no longer qualified to take the initiative to implement the urgently needed political reforms. This is eloquently evidenced, for example, by the fact that the Takeshita administration's approval rating in recent public opinion polls has fallen to an unprecedentedly low level.

What Mr. Takeshita and the ruling Liberal-Democratic Party should do first is to agree to the opposition demand for summoning former Prime Minister Yasuhiro Nakasone to testify before the Diet concerning his implication in the Recruit scandal. Otherwise, the public anger at the money-mad politics which have been pursued by leading politicians will never be allayed.

The Recruit scandal is no longer the object of interparty maneuvering within the Diet building. It is a national scandal, the thorough uncovering and solution of which is essential to recover the public trust in politics. And this should be done by political leaders whose hands are clean. The possible disappearance of money-oriented

politicians from the political limelight seems to be of least significance compared with the vital importance of restoring soundness and reliability to the nation's parliamentary democracy.

### **LDP Hits Back With Expose**

OW0904133089 Tokyo ASAHI EVENING NEWS  
in English 7 Apr 89 p 7—FOR OFFICIAL USE ONLY

["Political Spectrum" column article: "Desperate LDP Hits Back with Expose"]

[Text] An expose by Construction Minister Hikosaburo Okonogi is making waves within the government and opposition parties. Talking to newsmen on Tuesday, he said he had paid Y [yen] 2 million to buy tickets to a fund-raising party given by a right-wing group of the Japan Socialist Party when he headed the Diet Policy Committee of the ruling Liberal-Democratic Party.

Rumors about LDP payments to the opposition have never been confirmed so clearly before.

Unable to fend off the opposition offensive over the Recruit stock scandal, the ruling party seems to be starting a smear campaign to show that the opposition is corrupt as well.

"There could be more (disclosures)," says a senior member of Prime Minister Noboru Takeshita's faction.

"The Okonogi expose has achieved its objective of deterring the opposition," says a senior member of former Prime Minister Yasuhiro Nakasone's group. "Now we will see how things will work out."

The JSP denies Okonogi's assertion. JSP Secretary-General Tsuruo Yamaguchi and Shun Oide, chairman of the party's Diet Policy Committee, both hail from the right-wing group in question, the Government Plans Study Council. Both of them say they have no recollection of the alleged Y2 million payment, which took place in 1983 if it was actually made. "Mr. Okonogi's allegation shows just how badly the LDP has been cornered (as a result of the Recruit affair)," Yamaguchi contends.

Yamaguchi and Oide take the stand that it is better not to take the Okonogi allegation seriously. Even so, they are clearly embarrassed because the contention has made the rumors about payments to the opposition seem real.

The rumors have had it that "the LDP regularly buys large numbers of tickets to opposition fund-raisers" and that "when a serious controversy arises in the Diet, money is used almost routinely to turn the opposition around."

Oide admits that the government and opposition parties mutually buy fund-raiser tickets. "Sometimes we buy fund-raiser tickets for LDP lawmakers," the chief JSP Diet steering official says. "Those purchases are one of the things you just have to do when you are in charge of Diet management."

Okonogi's allegation was preceded by other moves designed to counter the opposition offensive. Just before the Feb. 12 upper house by-election in Fukuoka Prefecture, LDP sources circulated information that Recruit Co. had purchased tickets to a party commemorating the inauguration of JSP Chairwoman Takako Doi. The No. 1 opposition party admitted at that time that it had Recruit buy seven tickets, including three to the party for Doi.

Rumors were circulated later within the government party apparently to weaken the opposition boycott of Diet deliberations on the fiscal 1989 national budget. One rumor had it: "The names of senior officials of four opposition parties who had Recruit buy fund-raiser tickets have been identified."

It was also alleged that "money up to hundreds of millions of yen has been flowing to the opposition from the 'volunteer' fund at Nippon Telegraph and Telephone Corporation" and that "former JSP Secretary-General Makoto Tanabe asked LDP Secretary-General Shintaro Abe to buy fund-raiser tickets."

In connection with Okonogi's alleged Y2 million payment, some LDP lawmakers mumble that "it was actually Y20 million."

It is said to be an open secret in political circles that the LDP makes payments to the opposition at crucial junctures of Diet proceedings on key legislation and that some of the secret fund at the disposal of the chief Cabinet secretary is used to give send-off gifts when opposition members make overseas trips.

But not to mention those payments and gifts in public has apparently been the rule of the game between the government and opposition parties. "The best chairman of the Diet Policy Committee is a man who keeps silent on the secrets and takes them to his grave," says a senior LDP official.

The Recruit scandal seems to be putting strains on the rules of the game, as exemplified by Okonogi's expose.

### **Low Cabinet Support Suggests Government Change**

OW0204012889 Tokyo MAINICHI DAILY NEWS  
in English 31 Mar 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "LDP On Shaky Ground"]

[Text] Recent history demonstrates that government without the support of public opinion is impossible in parliamentary democracy.



A survey by the MAINICHI SHIMBUN in late March found that the popularity of the Takeshita regime has plummeted to 9 percent. This is an appalling free fall from the 18 percent approval rate in the survey conducted last December by the same newspaper.

The single-digit approval rating is the lowest ever recorded by the MAINICHI SHIMBUN, which began public opinion polls on the Cabinet in 1947.

Also extraordinary is a 24-point rise in the disapproval rating over the three-month period since the preceding survey. The figures show, in addition to the people's distrust in politics, that the foundation of the Takeshita Cabinet has been ruined.

Another remarkable finding is that only 28 percent expressed approval of the Liberal-Democratic Party, also a record low. A hasty conclusion on whether this means that severe public criticism of the LDP's long rule is here to stay cannot be made, but it is an important figure which shakes the base of the party.

It is now clear why the approval rating of Takeshita has fallen to an unprecedented single-digit figure.

The previous survey found three major negative aspects regarding Takeshita—the tax reform, the lack of leadership and the reluctance to clean up politics. The latest survey found, in addition to the markedly increased criticism of the tax reform and the leadership gap, a sharp rise in the distrust of his conduct.

"Patience is the key," Takeshita said in his political address at the start of the current Diet session, "in achieving whatever one intends to achieve. This is the guiding principle, in the Orient or in the Occident." But his patience, the public has found, according to the survey, has no philosophical relevance but is only a timesaving ploy to weather the Recruit storm.

With the arrest Wednesday of former Vice Minister of Education Kunio Takaishi and the filing of formal charges against former Vice Minister of Labor Takashi Kato and former Nippon Telegraph and Telephone Co. Chairman Hisashi Shinto, the criminal investigation has leaped over yet another hurdle. But the responsibilities of those politicians who received unlisted Recruit Cosmos shares, including Takeshita himself and former Prime Minister Yasuhiro Nakasone, have not yet been brought to light.

Since the previous survey was conducted, Takeshita has failed to take steps he has been widely urged to take: a thorough parliamentary investigation of the Recruit scandal and then a political reform through a strong leadership to bring about cleaner government.

Patience, in fact, has been imposed on the people, the patience to endure politics far removed from common sense. The 9 percent approval, figure indicates that their patience has reached the limit.

Conversely, the public has delivered the verdict that Takeshita is not capable of investigating the Recruit scandal nor instituting political reform. In addition, the forceful Diet adoption of the consumption tax without sufficient debate has now led to the eruption of a sense of injustice and distrust on the eve of its implementation.

Detailed analysis of the MAINICHI SHIMBUN surveys reveal that ever since the Recruit scandal was exposed the approval ratings of the Takeshita regime and the LDP have continued to decline in parallel.

As symbolized by the outlandish remark of an LDP leader who said: "What has the Recruit scandal got to do with the people's life," the party has continued an undisciplined stance toward the scandal. It has naturally angered the people, having thus far slighted them.

The significant drop in the support of the LDP in the agriculture, forestry, fishery, and small business sectors, the traditional bastions of the party, seems to suggest more than criticism on policy grounds. The LDP must face the fact that its very constitution is being severely questioned.

If serious economic unrest is added to the situation, parliamentary democracy may indeed be in jeopardy. The results of the latest survey clearly indicate that the public wants a change in the government.

**LDP Faction Members Criticize Takeshita**  
OW1104150989 Tokyo THE DAILY YOMIURI  
in English 10 Apr 89 p 1—FOR OFFICIAL USE  
ONLY

["Political Pulse" column by Raisuke Honda: "Vultures Circle over Takeshita"]

[Text] Devastated by the Recruit scandal and disastrous public opinion following the introduction of the consumption tax, it now appears that the administration of Prime Minister Noboru Takeshita is on the verge of collapse.

And with Takeshita unable to stanch the bleeding, a segment of the ruling Liberal Democratic Party has begun a palace revolt to banish the prime minister and his cabinet to the political doldrums.

Surprising to some, the hawks in the LDP are the main standard bearers in the drive to oust Takeshita. They are being led by former Transport Minister Shintaro Ishihara (Abe faction), former Economic Planning Agency

Director General Eiichi Nakao (Nakasone faction), former Education Minister Masayuki Fujio (Abe faction), and Shizuka Kamei (Abe faction) and Takeo Hiranuma (Abe faction).

These men are now putting the beat on the prime minister, saying that it is his fault that the LDP was caught with its hand in the Recruit cookie jar. They are also going after LDP Secretary General Shintaro Abe for not helping to drag Takeshita out of the political mud.

It is believed that these reactionaries will close ranks, form a new group this week, and acquiesce to an opposition demand that former Prime Minister Yasuhiro Nakasone explain in front of the Diet his role in the Recruit debacle. Aware of the crisis, Abe tried to convince the group not to do anything rash, but failed.

So far, Takeshita's administration has only survived due to the nonexistence of party dissidents. Former Deputy Prime Minister Shin Kanemaru said recently that Takeshita and his appointees had escaped oblivion by the skin of their teeth, and only because of a dearth of LDP rebels. Now, the rebels are gathering.

Kamei expects about 40 LDP Diet members to join his movement. His comrades are taking the radical (for the LDP) line that everybody who took money from Recruit, including Takeshita and Abe, should quit.

In dire straits, Takeshita and Abe are fighting back against the opposition with an apparent bluff that they will ram the fiscal 1989 budget down the throat of the Diet and then dissolve the Lower House and hold a double election.

Finally, in a transparent effort to diffuse public criticism, the LDP has begun to try and publicize opposition indiscretions with regard to money.

This is unprecedented. In the past the LDP has distributed huge amounts of money to the opposition (except the Japan Communist Party) to keep its nominal opponents docile and cooperative during Diet sessions, it is believed.

However, this share-the-wealth tactic has never been publicly discussed. Now, the LDP, with its back to the wall, is finally violating the code of silence, an action that clearly demonstrates how debilitating the Recruit scandal has been to the previously monolithic, and utterly impregnable party of power.

**LDP Dietmen Form New 'Heisei Society'**  
OW0604100289 Tokyo MAINICHI SHIMBUN  
in Japanese 3 Apr 89 Morning Edition p 1—FOR  
OFFICIAL USE ONLY

[Text] Some 40 young LDP dietmen, who have been elected for one to four terms will form on 4 April a new "dovish" dietmen's group—to be named as "Heisei

Society" [Heiseino-kai] with Lower House member Katsuhiko Shirakawa and others as leading members—to seek political reform with its fundamental ideology based on safeguarding the Constitution.

As a "dovish" dietmen's group for safeguarding the Constitution, the society will also advocate the following fundamental ideologies: 1) policies based on liberty and democracy; 2) promotion of peace-oriented diplomacy; 3) political reform based on a strict sense of ethics; 4) establishment of free and broad-minded party morale; and 5) exchanges with other progressive parties in the world.

The society's parent body is a caretaker group which was organized about 2 years ago for holding study sessions to oppose "the Defense Secret Protection Law (or the Spy Prevention Law)." Feeling an intensified sense of crisis in the wake of a growing trend of hawkish views in the party as noted in the cases of the serious Recruit scandal since last summer and during the late emperor's funeral, the group has finally decided on forming the society to "re-evaluate the LDP's constitution and to devote itself to reform," (according to the society's prospectus).

**July Upper House Election Crucial for Takeshita**  
OW1104130989 Tokyo THE DAILY YOMIURI  
in English 10 Apr 89 p 1—FOR OFFICIAL USE  
ONLY

[Article: Takeshita's Fate Hinges on Upper House Election"]

[Text] If Prime Minister Noboru Takeshita is to hold on to power, the Liberal Democratic Party cannot lose its majority in July's House of Councillors election, analysts said Sunday.

The LDP must pick up at least 54 seats of the 70 seats up for election to maintain its majority in the Upper House.

On March 31, Shin Kanemaru, former deputy prime minister, said at a political gathering in Yamanashi-ken, his home constituency, that Takeshita should resign if the LDP takes a beating in the election.

It is ironic that Kanemaru is the first LDP official to publicly allude to the possible resignation of Takeshita, his political protege.

A series of opinion polls shows public support for the LDP has plummeted, fueled by the Recruit scandal and the displeasure over the introduction of the 3 percent consumption tax April 1.

In Miyagi-ken, the LDP lost by default in a gubernatorial election and barely squeaked out a victory in the Chiba-ken gubernatorial election.

Anti-LDP feeling continues to grow even in agricultural communities, once viewed as LDP strongholds. Many farmers withdrew their support after the agricultural market was liberalized and opened up to foreign competition.

Under these circumstances, many predict that the LDP will face a difficult battle in the Upper House election.

The ruling party needs a total of 127 seats to maintain a majority in the 252-seat Upper House, and in the coming election 73 LDP seats remain uncontested.

Therefore the party can afford to drop no more than 16 seats in the election and still hold its Upper House Majority but the LDP can lose 17 seats if Yoshihiko Tsuchiya, the Upper House speaker, an independent officially backed by the LDP, is counted as an LDP member.

The worst the LDP has ever done in the Upper House is 61 seats in the general election of July 8, 1956. In that election, the first following the 1955 merger of the Liberal and Democratic Parties, the LDP failed to win a majority in the Lower House.

In the last three Upper House elections the LDP won majorities, picking up 69 seats in 1980, 68 seats in 1983 and 72 seats in 1986.

It managed to maintain its Upper House majority by one seat in a general election in 1977, called in the wake of the Lockheed payoff scandal. The LDP also maintained its upper House Majority in the 1974 general election, an election in which big business came under fire for "buying" politicians.

As LDP support continues to nosedive, a sense of crisis is growing among LDP Diet members.

"I wonder how many voters will actually vote for the LDP in the proportional representation system, in which voters cast ballots for political parties, not individual candidates," said one LDP Diet member. He added that the LDP will be lucky to win 12 Upper House seats in the coming election.

Others were not so negative, predicting that the LDP will lose only about 10 seats.

**Takeshita's Falling Popularity Discussed**  
OW0404204989 Tokyo THE DAILY YOMIURI  
in English 3 Apr 89 p 1—FOR OFFICIAL USE ONLY

[Political Pulse" column by YOMIURI SHIMBUN political editor Reisuke Honda: "Well Takeshita Self-Destruct?"]

[Text] The approval rating of the Cabinet of Prime Minister Noboru Takeshita has declined to 12.9 percent according to a March Yomiuri Shimbun opinion poll.

The disapproval rate, on the other hand, sharply increased to 74.3 percent. These are the worst figures since the Liberal and Democratic Parties merged in 1955 to form the Liberal Democratic Party.

Major contributing factors in the government's unpopularity are the introduction of the consumption tax, the Recruit scandal, and the liberalization of agricultural commodities.

In other opinion polls the government has fared no better. Political pundits are now speculating on the premature death of the Takeshita Cabinet. Considering how long past governments have survived with even less dismal approval ratings, observers say that Takeshita may be shown the door in two or three months.

How low can he go in the polls and survive? At what point will Takeshita and the Cabinet self-destruct?

Some trends are common to all cabinets. Immediately after a new cabinet is formed it enjoys strong popular support during a honeymoon period. However, it is only a matter of time before a cabinet's support rating slides, and at some point the cons overtake the pros.

This has been the case for Cabinets of Kakuei Tanaka, Takeo Miki, Masayoshi Ohira and Zenko Suzuki. In the case of the Tanaka Cabinet, formed in 1972, the approval rate was 61 percent when it was formed. This declined sharply to 26 percent in six months due to the oil crisis and land price hikes brought on by Tanaka's "Building a New Japan" policy. Later he resigned in the wake of the Lockheed scandal.

In contrast, the approval rate for the Cabinet of Yasuhiro Nakasone was 40 percent when the Cabinet was formed. Three times his approval rate dipped below 50 percent and then bounced back before he turned over the job to Takeshita. When he resigned his approval rate was 49 percent and the disapproval rate was 34 percent.

The Takeshita Cabinet registered an approval rate of 52 percent when it was formed in 1987. However, the disapproval rate exceeded the approval rate last November, one year after the Cabinet was formed, and has been sliding ever since.

Based on this fact, opposition parties are now demanding the resignation of the Cabinet. Even Liberal Democratic Party members are beginning to worry how long the Takeshita Cabinet can hold on.

During the final days of the Tanaka Cabinet his faction members maintained that he would never resign, even if his approval rate decreased to 1 percent. However, Tanaka was forced to resign after all. Takeshita was the last chief cabinet secretary of the Tanaka Cabinet.



Michio Watanabe, chairman of the LDP Policy Council, said even if the disapproval rate increased to 100 percent, the Cabinet should not resign. The existence of the Cabinet is up to the LDP, not the people, he seemed to be saying.

In the case of the Tanaka Cabinet, the approval rate in its final days was higher than the current approval rate for the Takeshita Cabinet. However, the Cabinet was finally forced to resign since strong leaders such as Takeo Fukuda and Takeo Miki joined anti-main stream members. The same happened to the Miki Cabinet.

In the case of the Takeshita Cabinet, however, the approval rating is extremely low. It is expected that the approval rate will decrease below 10 percent in this month's Yomiuri poll. In other polls this has already happened.

Yet, the Takeshita Cabinet hangs on, and some optimists predict that its popularity will rise again like the Phoenix. They say that party unity has been maintained at the LDP's central administration level even if the unity in local regions has come unraveled a bit.

**Poll Says 'Majority' Demands Diet Dissolution**  
OW0404182789 Tokyo JIJI in English 1434 GMT  
3 Apr 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, April 3 (JIJI PRESS)—The vast majority of Japanese, angry over ruling Liberal-Democratic Party (LDP) members' implications in the Recruit Cosmos scandal and the introduction of the consumption tax, wants the House of Representatives to be dissolved for a general election, according to the recent opinion poll conducted by JIJI PRESS.

The opinion poll was conducted for four days from March 10, covering 2,000 adults selected from the across country. Of the total, 74.85 pct responded. It was the fourth survey undertaken by JIJI PRESS in House of Councillors election years, following others in 1980, 1983, and 1986.

It shows 68.3 pct of those surveyed demanded the dissolution of the lower house for a general election, versus only 13.0 pct of opponents.

When asked which party they would support in this summer's triennial upper house election and if the lower house is resolved for a general election, the number of those who replied they would vote for the LDP fell by over 10 percentage points from the previous survey held in 1986.

The poll indicates that the opposition parties will outscore the LDP at the elections in terms of the number of votes won. In an upper house election, in particular, the LDP is only expected to take about a dozen or so of the 20 seats that are up for reelection under a proportional representation system.

Meanwhile, 75.7 pct of the respondents thought the LDP would suffer losses if a general election is held, while 49.0 pct cited a slight setback and 26.7 pct a severe loss. Only 4.5 pct said the LDP would better its standing in the general election.

The results of the opinion poll, which reveals the public's anger over the deep involvement of ranking LDP members in the influence-peddling Recruit Cosmos stock scandal and the party's railroading of the consumption tax legislation through the Diet (parliament), are expected to influence the campaigning strategies of the ruling and opposition parties ahead of the upper house election.

**Most People Unhappy With Political Situation**  
OW2903231289 Tokyo ASAHI EVENING NEWS  
in English 28 Mar 89 p 1—FOR OFFICIAL USE ONLY

[Text] The vast majority of Japanese are dissatisfied with the country's political situation in the midst of a major bribery scandal and the upcoming introduction of an unpopular 3-percent consumption tax, according to an Asahi Shimbun poll conducted earlier this month.

Some 82 percent of the respondents said they have some complaint about the new tax to take effect April 1. Some 23 percent said they don't think the ruling party's tax reform package, which includes the consumption tax and a reduction in personal income taxes, will correct the country's "unfair tax system."

Of those surveyed, 68 percent said they were dissatisfied with the political situation in general.

The rate of dissatisfaction was the highest since 1978 when the Asahi Shimbun first began asking in its regular survey if people were "satisfied with the current political situation."

Until the latest survey, the highest level of dissatisfaction was 61 percent, registered in both 1978 and 1979 during a period of intense rivalry within the ruling Liberal-Democratic Party (LDP).

The ASAHI SHIMBUN said the poll shows that people are irritated with the slowness of Prime Minister Noboru Takeshita's promised political reforms. Sixty-seven percent of the respondents said they don't think Takeshita has tackled the issue squarely.

The poll was conducted March 15-16 and was based on personal interviews with 3,000 registered voters. Valid responses were received from 80 percent. No error rate was provided.

## Economic

**Experts Fear Yen Fluctuation Effect on Inflation**  
*OW0104013889 Tokyo THE JAPAN ECONOMIC JOURNAL in English 1 Apr 89 p 2—FOR OFFICIAL USE ONLY*

[By staff writer Yuko Inoue]

[Text] The recent stormy foreign exchange market—which pushed the yen to a five-month low of 132 to the dollar—has raised speculation among economists that Japan's long-time price stability is headed for some turbulence.

Although the yen has bounced back moderately, the economists believe the Bank of Japan will be compelled to raise its key lending rate in the not-too-distant future to ease inflationary pressure.

The yen's drop on March 20 followed the previous weekend's report that U.S. wholesale prices rose 1 percent in February, the largest hike in two years. It also reflected a surge in crude oil prices in New York and Tokyo, which could accelerate rises in consumer prices and interest rates, they say.

The weak yen could push Japan's domestic prices higher by making imports more expensive, according to the economists.

The currency's fall, coupled with the news that a strong Liberal Democratic Party candidate won a gubernatorial election in Chiba Prefecture by only a slim margin, also depressed the stock and bond markets on March 20.

Since early this year, when the strength of the yen and low crude oil prices were beginning to fade, Satoshi Sumita, governor of the Bank of Japan, has repeatedly voiced concern over rising inflation, saying "prices need close watching."

### Higher Prices Anticipated

Opinions are diverse over whether U.S. interest rates will remain at their current high level, or the U.S. economy will slow down, easing interest rates and halting the yen's drop.

But Japan's financial markets, fueled by the central bank's concern, are already acting apprehensively, some economists say.

"The markets, concerned about inflation and higher interest rates, have already taken into account a possible Bank of Japan action to raise the discount rate," says Mitsuru Saito, a Sanwa Bank economist.

He predicted that a yen depreciation of 10 percent to the dollar will raise consumer prices by 2 percent. And this would be on top of the effects of the 3 percent consumption tax to be imposed on most goods and services, effective April 1, and a larger than usual pay hike expected in this year's wage bargaining in mid-April.

"The Bank of Japan had been warning of inflation, but they had seen no hard evidence of it in the past," says Saito. "But now it seems a real danger."

Johsen Takahashi [name as published], a Mitsubishi Research Institute economist, says he expects U.S. interest rates to stay on an upward course in the long term.

"The Bank of Japan will carefully watch the trend in April and boost its key lending rate later in May, following another U.S. Federal Reserve discount rate hike, possibly in early May," he predicts.

The key U.S. lending rate now stands at 7 percent, while Japan's is at 2.5 percent, a post-war low.

While the Bank of Japan warns of inflation, clear signs of sustained, widespread price rises are still scarce. Last February, wholesale price rose 0.3 percent over a year earlier, the first increase in 16 months.

In the first 10 days of March, the central bank reported a 0.3 percent increase in wholesale prices and predicted a further, if slight, rise in the second 10 days of March due to the yen's depreciation.

Bank of Japan officials said the increases were still within "a stable price range" but "need watching."

The Ministry of Labor, on the other hand, reported that labor costs compiled by employment offices showed their largest increase last year since 1975.

Wages of female workers who got jobs at small businesses through employment offices rose 7.3 percent last year, compared with 0.9 percent in 1987 and 3.1 percent in 1986.

But Economic Planning Agency officials say the tightening labor market is unlikely to translate into higher wages in general, citing the rigid wage structure of white collar workers under Japan's lifetime employment system.

Meanwhile, the diffusion index, an important barometer of the tightness of the product supply-demand relationship compiled by the central bank, has risen gradually. The current pace of the economic expansion is faster than the central bank believes can be sustained without aggravating inflationary pressures.

"We are now entering a stage where we must make preparatory moves to raise interest rates in advance and restrain the economy," a bank official says.

**\* LDP's Abe Proposes Yen Redenomination**

41050065 Tokyo KANKAI in Japanese

Mar 89 p 200—FOR OFFICIAL USE ONLY

[Text] As government leaders anxiously watch the movements of the special investigation unit of the Tokyo District Prosecutor's Office in the "Recruit" scandal, Secretary-General Abe of the Liberal Democratic Party (LDP) suddenly came up with the idea of redenomination of the currency.

He made the suggestion during an address at the Japanese Press Club, which had invited the secretary-general of the ruling party to speak on the political outlook for the next year.

His talk came at a time when the exchange rate of the yen was hovering at about 125 to a dollar, and when the Japanese Government was concerned that a situation where the strong yen and cheap dollar at a level of 100-110 yen might prevail when the new Bush administration unveils its financial policy.

When the Showa era began, after the Taisho era, the Hamaguchi government failed in its attempt to lift the gold restraints. Since this is not a monetary policy, unlike "lifting the gold restraints," but is simply a redenomination of the currency, it cannot fail.

Redenomination might be considered a "commemoration" of the transition from the Showa era to the Heisei era. In contrast to the yen-to-dollar conversion, which is in 3 figures despite Japan's giant economic status, it is 1.86 Deutsche marks to the dollar for West Germany, another strong economic power, and 1.75 pounds to the dollar for the United Kingdom.

Since it was just 2 yen to the dollar for Japan in the prewar period, if the yen is redenominated by 100 to make it 1.25 yen to a dollar the prestige of the yen as an international currency would be enhanced.

This idea has been entertained by many. Former Prime Minister Fukuda was an ardent advocate of redenomination, as was the late Finance Minister Mizuda. The conditions under which redenomination could be introduced would be when prices and the international balance of trade are stable, coupled with a business boom and when the domestic social and political situations are stable.

Secretary-General Abe has expressed his desire thus: "The situations are not bad. Prime Minister Takeshita might be giving serious thought to it." Because of the Recruit scandal, people's sense of distrust toward politics has deepened, and differences in reasoning between the government and the people have grown wider because of the introduction in April of the consumption tax. The LDP cannot afford to be optimistic about the

upper house election in July. It may not be too irregular to think that Abe had hoped to lift the depressed mood of his party by bringing up the idea of redenomination.

It may take 3 years of preparation after the announcement of the redenomination to put it into effect. If that is indeed the case, it would be implemented after the next elections, during Takeshita's second term.

Each government has carried out a major job, as can be seen by the administrative reforms of the Nakasone government and the tax reforms of the Takeshita government. On the part of Abe, his wish seems to be growing to reserve the task of redenomination of the currency for the Abe government.

The Bank of Japan is cool to the idea, however, and the economic community is fretting about adjusting to the consumption tax. As a result, Abe's trial balloon was shot down, with neither response nor support from the political and financial communities.

**\* Discussion of Redenomination of Currency**

41060067 Tokyo ZAIKAI in Japanese

14 Feb 89 pp 66-68—FOR OFFICIAL USE ONLY

[Article by ZAIKAI commentator Maruyama Masataka]

[Text] The debate over whether or not Japan should redenominate its currency has come up again. What brought it to the fore again was LDP Secretary General Abe's statement that Prime Minister Takeshita really would like to see redenomination become policy. The debate surrounding redenomination has been around for a long time, and there are many in industrial circles that take a critical view of it. This article will take a look at the situation as it stands now.

**Former Prime Minister Sato Took a Dim View of Redenomination**

I seem to recall that 5 or 6 years ago, I was at a party where I asked former Prime Minister Nakasone the straightforward question, "Are you going to redenominate?" We were all a little tipsy, and the atmosphere was rather loose, but he tried to come to the heart of the matter. "No, it's impossible. It's been tried before," was his reply.

Mr Nakasone is one of the leading proponents of redenomination within the leadership of the LDP. Back when Mr Nakasone was the minister for international trade and industry, he made a case for instituting redenomination at a "study group" of the Nakasone faction held at Ise City in Mie Prefecture on 30 September 1973, but the minister of finance at that time, Kiichi Aichi, was not pleased.

It is unusual for the minister for international trade and industry to speak out and provoke discussion on redenomination, which is the bailiwick of the minister of



finance. At that time, the media was giving heavy coverage to the debate on redenomination. However, Nakasone's statements on redenomination were drowned out by the rampant inflation that followed the first "oil shock."

Thus, after Nakasone became LDP president and prime minister, there is no doubt that he looked for chances to revive the issue of redenomination, and we can well imagine that he maneuvered with then Minister of Finance Takeshita (now prime minister) to make a declaration on redenomination. It was thus somewhat disappointing that this same Nakasone would say that redenomination is "impossible."

The debate about redenomination is an old one. It started with the consideration given to it by then Prime Minister Nobusuke Kishi and the minister of finance at that time, Eisaku Sato, in 1958, when the late President de Gaulle of France announced the redenomination of the franc. In the following year, 1959, the president of the Bank of Japan, Mr Yamagiwa, made a pronouncement in favor of redenomination. While Prime Minister Kishi supported this pronouncement, Minister of Finance Sato opposed it. Mr Sato was one of the rare voices of opposition within the leadership of the LDP, most of whom were in favor of redenomination.

Simultaneous to the strengthening of the yen in 1971, whenever the issue of redenomination was brought up for consideration, it was eventually abandoned by the prime minister. During the currency realignment of 1971, the chances for redenomination had reached their postwar peak.

The minister of finance at that time, Mikio Mizuta, spoke in the Diet of the necessity for redenomination of Japan's currency. Concurrent with the rise in the yen there were press releases announcing the enactment of redenomination, but the prime minister could not be persuaded to change his mind, and the press releases dealing with redenomination had to be eliminated.

#### **Ushering in of the Heisei Era: An Opportunity for Redenomination**

In comparison with the ups and downs of the redenomination debate in the past, it appeared that it might become a reality with the speech given by Shintaro Abe, secretary general of the LDP, before the Japan Newspaper Reporter's Club on 17 January. Naturally, one of the justifications for reviving the redenomination issue was the change from the Showa Era to the Heisei Era. Mr Abe expressed his political judgment that deep in his heart, Prime Minister Takeshita wants to see a change in people's hearts along with the change in eras, and he would like to see new systems established as Japan faces the 21st Century.

Prime Minister Nakasone called for a coming to terms with Japan's postwar politics, and aimed for indirect taxation and redenomination, but was unable to achieve these goals during his term of office. Of these two "legacies," Prime Minister Takeshita has achieved indirect taxation in the form of a consumption tax. There is no doubt that Takeshita was able to increase his self-confidence by pushing through the consumption tax. Regarding the other task, redenomination, it appears that he has strengthened his resolve.

There can be no doubt that Mr Abe's declaration on redenomination reflects Prime Minister Takeshita's intention that his administration become serious about it. Any action on redenomination will presumably take place after the funeral of Emperor Hirohito, and after the confusion over the consumption tax has died down, but it could take place at the earliest some time during this year. If the political situation is stable after Takeshita's reelection as LDP president this fall, it can be expected that a case will be made anew for redenomination.

However, as described in a more than 68-page interview with Hiromi Tokuda, director of the Nomura Research Institute, there are many technical difficulties involved in redenomination. Mr Tokuda pointed out that with the progress that has been made in computerization these days, the management end of industry is now able to handle computations involving trillions of yen. And, especially in the financial industry, where the burden of redenomination will be the heaviest, there is the strong feeling expressed by the head of a city bank that "if redenomination is instituted, we hope that the Government will provide preferential tax treatment."

Many in financial circles are saying, "Redenomination won't have any effect. We wonder why the fuss is being made over redenomination at this time?" However, even if redenomination is instituted, it will not necessarily solve Japan's unnatural position among the advanced countries. For example, the exchange rate in Italy, which has redenominated its currency, is still in the three-digit range with respect to the dollar.

Even if we completely give up on redenomination in the future, it is possible that at some time the government will resurrect the issue and urge its speedy enactment.

As Mr Tokuda has pointed out, the longer we wait, the more complex computer systems will become, managerial costs will billow, and redenomination will become more difficult. If we are caught up in the technical aspects of redenomination, we will find a large number of obstacles, but the decision to redenominate is ultimately a political one, which will fall on the shoulders of Prime Minister Takeshita and his administration.

How much determination Prime Minister Takeshita will show to institute redenomination, and whether he will take decisive steps toward planning for Japan's next 100 years, remains to be seen. The issue of redenomination will certainly be one that will be watched closely at the end of this year.

**\* Tokuda's Comments**

41060067 Tokyo ZAIKAI in Japanese  
14 Feb 89 pp 68-71—FOR OFFICIAL USE ONLY

[Interview with Hiromi Tokuda, director of the Nomura Research Institute, by Masataka Maruyama: "Redenomination Becomes More Difficult as the Years Go By"; date and place not given]

[Text] Maruyama: Very early in the year Emperor Hirohito passed away, a new era was ushered in, and LDP Secretary General Abe made a statement on redenomination. I feel as if a lot of "earth shaking" events are happening all at once.

Tokuda: According to the Chinese zodiac, the "Heisei Era" falls in the sixth cycle of the sexagenary cycle. This means that this will be a period of growth and rebirth, and that reason will rule. This 1st year of the Heisei Era is also the Year of the Snake, which signifies prosperity. This could mean that this will be a year of reform and progress.

Maruyama: In a number of ways 1989 looks like it will be an important turning point. I came here today to ask your interpretation of the new era, including how the question of redenomination fits into the scheme of things. First of all, the issue of redenomination has been raised any number of times in the past, hasn't it?

Tokuda: In as much as the start of a new era signals new popular sentiments, I think it's important for politicians to pay close attention to the issue of redenomination. However, from the standpoint of the technical problems involved in enacting redenomination, it will not necessarily be easy. But the longer we wait, the more difficult it will become.

Maruyama: In the past, talk of redenomination caused a rapid rise in the price of stocks for paper, pulp, and printing companies. It's been said that talk of redenomination always comes up when Kabutocho falls upon hard times (laughter).

Tokuda: I think that's a thing of the past (laughter). If we do have redenomination, it's hard to say how much of the burden will be borne by the private sector, but it is no longer simply a matter of paper and printing. Progress has been made in computerization, electronics, and mechanization. Looking at it from that standpoint, these areas will be the most affected in terms of cost considerations.

Maruyama: What about timing? If we consider the preconditions for redenomination, such as stable prices, a calm foreign exchange market, and a favorable domestic economy, wouldn't we be fairly objective in saying that now is an excellent time for redenomination?

Tokuda: There is no doubt that all of the conditions are right. However, there is one more condition, namely the social cost, and the cost to the private sector, that must

be taken into consideration. As I indicated a few minutes ago, the computer software must first be reworked. Also, there are a lot of automatic vending machines for handling the coins and paper money in circulation. Banks have cash dispensers, and there are a lot of ATM's (automated teller machines) in use. How are these going to be changed? This is quite a big problem, isn't it?

Not only that, but I think that the use of so-called "prepaid cards" which are valid for next year and the year after next has grown. How are we going to handle them if we have redenomination? It will cost a lot of money to make these changes. It might cost each bank more than 10 million yen to make the necessary changes.

Maruyama: Some have said that it will cost industry a total of something like 1 trillion yen.

Tokuda: I don't think that's an exaggeration at all. What are we to think of the costs involved? Although we are now coming into the "cashless age," the nominal growth rate of coins and paper money in circulation has been fluctuating, but the actual amount of coins and paper money in circulation has become quite large. Let's suppose for a moment that we have a two-digit redenomination. I don't know if the unit will be the yen, or the "gen" or the "ryo," but let's suppose it's the "ryo." Then, 10,000 yen would have the same value as a 10 ryo bill. Since the presently circulating coins and paper money could not all be exchanged at once, the present state of things would continue for at least 5 years. Under some circumstances, it could take as long as 10 years to exchange everything. In the mean time, payment would have to be calculated in terms of both 10,000 yen and 10 ryo, which is troublesome. Thus it is extremely hard to say if redenomination would be advantageous or disadvantageous.

Maruyama: There is no doubt that redenomination would cause the problems that you have mentioned, but there must be some merits to it that you can see.

Tokuda: In the redenomination debates of the past, some thought it strange that \$1 should be the equivalent to a three-digit yen figure. There was also the view that the number of digits in prices would increase, and that, for budgeting purposes, these figures could no longer be covered by units of trillions, so it was suggested that perhaps two digits could be removed.

Maruyama: In other words, an attempt at rationalizing the system through redenomination.

Tokuda: However, with the introduction of the consumption tax, this debate over two digits is now a little strange (laughter). Well, that's because with a consumption tax, the 1 yen coin will now take on some meaning. If the consumption tax is 3 percent, a 1,100-yen item will

cost 1,133 yen. Thus, even if we have redenomination, no matter if it's so many yen and so many sen, or so many ryo and so many sen, these small units will be significant. In the past, prices could be rounded off, but with the introduction of a consumption tax, that will no longer be possible. In other words, redenomination will not really result in a reduction in the number of digits in our currency.

Another problem is the yen-dollar exchange rate. If we suppose an exchange rate of 127 yen 53 sen per dollar, even if we redenominate our currency by two digits upward (redenomination of 1/100), the resulting figure will be 1.2753. The four decimal places will remain in computations. I wonder, then, if there is any advantage to redenomination?

Maruyama: If I understand you correctly, every year we delay, the more disadvantageous it is to redenominate, and so far, the costs have really piled up. It has become increasingly difficult to actually put redenomination into practice. Since Prime Minister Takeshita must be aware of this, am I right in concluding that his zest for redenomination is for political reasons?

Tokuda: As a politician, he understands the political implications of redenomination. However, the costs would be too high, and there would be considerable opposition from the private sector, wouldn't there?

Maruyama: But from an objective standpoint, the timing would be very good now, since companies are doing very well, and the political situation is stable.

Tokuda: Except for the difficulties from the daily business end of things, this is a good time for redenomination, from a macro point of view. However, since it would probably take about 2 years to prepare for redenomination, it would require a judgment about how things will look 2 years from now.

Maruyama: One more thing. At the other end of the scale, namely the large denomination notes, some think that the Ministry of Finance is now considering the issuance of 100,000 yen bills and 50,000 yen bills.

Tokuda: Circulation of these high denomination bank notes would be limited. As of now, they are thinking of aiming for 87 percent, but if they exceed 87 percent, even the cash dispensers will become bulky. The time to introduce high denomination bank notes is at hand, and the age of the 10,000 yen note is almost over. In this sense, the time for redenomination is ripe. Creating higher denomination bank notes will take a lot of time. To change the minting machines so that they will stamp "Heisei" instead of "Showa" will take a month. In other words it will take a month from the day it was decided to name the new era "Heisei" to produce coins minted in the 1st year of the new era.

In the case of paper money, the printing plates would probably have to be redesigned. Also, printing would have to be done several times. I suppose it would take about 1 year to make all of the necessary preparations. Also, the bank notes will have to be printed in large batches for distribution....

Maruyama: How long do you suppose that will take?

Tokuda: About 6 months or a year. Thus, even if we decided today to redenominate, it would take about 2 years before the new currency would start circulating in the market. And all this effort would be wasted if the economic situation turns sour and if prices do not remain stable.

Maruyama: We must be careful that the introduction of higher denomination paper money and redenomination do not promote inflation.

Tokuda: It is conceivable that redenomination could lead to higher prices, and the introduction of paper money with higher denominations into circulation could bring about an inflationary psychology, but in any case, this is a judgement call. It may be the case that it is better to introduce paper money with higher denominations. A variety of cash dispensers, automated teller machines, and automatic vending machines are now in use, and the amount of money that these machines are physically capable of holding has already been set. Thus, there are limitations to redenomination.

If a person wants 300,000 yen, that amounts to thirty 10,000 yen notes, but only six 50,000 yen notes. This is one of the advantages to introducing higher denomination paper money over redenomination. Under the current system of denominations, the authorities that issue bank notes have to deal with a lot of cash. The Ministry of Finance and its various bureaus are not considering redenomination at all, but are studying the possibility of issuing higher denomination bank notes.

Maruyama: During this 1st year of the Heisei Era, the economic situation is favorable for redenomination, but do you see any factors that might disturb things?

Tokuda: According to the Nomura Research Institute, the economic growth rate for 1988 was 5.0 percent, and it predicts 4.6 percent growth for the 1st year of the Heisei Era. Generally speaking, if the growth rate in Japan looks like it's going to go below 4 percent, people start to feel a recession coming on. On the other hand, if it exceeds 5 percent, people have a great feeling of prosperity. Thus, between 4 and 5 percent growth is a stable situation for Japan. If things continue as they have been, the growth rate for next year could exceed 4 percent.

Maruyama: Just about all companies are doing well now, aren't they?



Tokuda: The reason for this continued prosperity will be two-fold: plant and equipment investment in the private sector and the expansion of private sector consumption. Plant and equipment investment greatly depends on profits, but looking at profits from sales, we see that for every 100 yen worth of sales, there is an average profit of 5 yen 60 sen. The only thing that comes close to this is the pre-oil shock profit of 5 yen 90 sen. At that time, however, prices were rapidly rising, resulting in increased profits. But now, wholesale prices are going down. The reason why profits are up despite lower prices is related to streamlining of management, and progress in restructuring. If these trends continue, the steady plant and equipment investment should continue for at least another year.

Maruyama: What about consumption?

Tokuda: In the past there were periods of rapid drops in consumption. During the Fukuda administration, prices shot up because of the first and second oil shocks, and the discount rate was raised 4 to 5 percent all at once. That caused consumption to peter out. However, this time, consumer prices are stable. There is some concern about the price of crude, but there will be no massive increases in crude prices to \$20 or \$25. We expect personal consumption to continue on a favorable course for at least another year.

Maruyama: One could draw the conclusion that if there is anything to disturb these trends, it would not originate domestically, but come from abroad.

Tokuda: One factor is, of course, the price of crude. With the end of the Iran-Iraq war, OPEC is trying to regroup once again. But I don't think it will regain its former position of leadership. I can't imagine that there will be any drastic rise in the price of crude during the 1st year of the Heisei Era.

Another factor is the yen-dollar exchange rate. In other words, this depends on whether or not the market has confidence in the Bush administration. During the 100 or so day honeymoon of the Bush administration, the market has not reflected any serious criticism of President Bush. I think that Bush has worked hard to develop his policies, but I am not so sure that he will be able to come up with any bold policies to deal with the "twin deficits."

Maruyama: You have given us a picture of an overall favorable economic situation that contains some possibilities for disturbance during the Heisei Era. Could you give us some pointers on trends that we need to keep an eye on?

Tokuda: There are five areas that we need to watch carefully in an economy driven by domestic demand. First of all, in an open market, which gives people a feeling of prosperity, regional differences will diminish, and multipolar distribution will result. Secondly, there

will be competition for 1 trillion yen in contracts for improvements in Japan's infrastructure. Thirdly, the "age of leisure" is coming, when people will take more time off from work for vacations. Fourthly, the information and communications revolution will continue, and finally, there is Japan's response to the call for internationalization. Japan's business opportunities in the 1st year of the Heisei Era will be found in these five trends. Management will have to keep its eyes open in all directions, and a change of consciousness will also be important.

Maruyama: Thank you very much.

**\* BOJ President on Monetary Policy**  
41060071 Tokyo SHUKAN TOYO KEIZAI  
in Japanese 4 Feb 89 pp 74-77—FOR OFFICIAL USE ONLY

[Lecture given by Satoshi Sumita, Bank of Japan president, on 13 January 1989 at the Tokyo Keizai Club]

[Excerpt] [Passage omitted] With a view to foreign and domestic economic trends, I wish to speak on the Bank of Japan's [BOJ] basic stance regarding monetary policies and the tasks facing our country's monetary and economic circles.

#### Reap Advantages of Yen Appreciation

An examination of the domestic economy reveals that while maintaining a strong economic expansion since mid-1987 with capital investments and personal consumption as the two driving forces, prices have been kept stable and in external balances surplus reduction is the keynote. So the Japanese economy is showing a favorable development that is well-balanced in all aspects of the economy, prices, and external balances.

The outstanding feature of the current economic expansion phase is that it is being supported by a strong increase in civilian demand, centered on capital investments and personal consumption, while the contribution of foreign demand is declining.

This development can be interpreted to mean that our country's industries devised aggressive countermeasures and advanced economic structural adjustments to cope with the rapid acceleration of the yen since the Plaza Accord of the fall of 1985. That response together with the expansion (the plus factor of yen appreciation) of real income created through trade term improvements brought about by the yen appreciation has led to the uncontrolled expansion of domestic demand.

In other words, capital investments have moved on a strong upward curve since 1987, reflecting the structural adjustments efforts of enterprises, while personal consumption recently has shown further increases in growth, supported by an increase in real income under price stability. Furthermore, this expansion of internal

demand has created increases in corporate profits as well as in employment and household income. As the trigger for the next expansionary phase of demand and income, a strongly constructive and favorable interaction is taking place between the entrepreneurial and household sectors.

#### **Price Shifts Within a Stabilized Range**

Of course, this favorable cycle has not been brought about automatically through yen appreciation, and I believe the situation can be assessed as follows: It shows that our country's enterprises directed priorities to internal demand and carried out aggressive management methods, such as vigorously unearthing new consumer needs and developing and marketing new products, while the flexibility of the Japanese economy has enabled responses to wide-ranging changes in the price structure accompanying yen appreciation. That, in turn, led to making the most of the yen appreciation.

As for future prospects of the economy, probabilities are great that capital investment and personal consumption will continue at a firm pace for the time being. For that reason, if it is possible to prevent the economy from over-heating and to maintain price stability, long-term economic expansion can be fully expected to continue. This point has been fully underscored in the short-term outlook released by the BOJ in November 1988 (short-term economic forecast based on November surveys).

As for price trends, both domestic wholesale and retail prices are continuing to shift within a stabilized range. This price stability in the midst of economic expansion is largely due to the direct and indirect pressure exerted on domestic product prices by cheaper imports, which have increased with the acceleration of the yen appreciation, and the weakness of crude oil prices which has continued to date. In addition, another important factor is the depressing effect of increased sales and production volume of unit wage costs.

#### **Keep an Eye on Spring Labor Struggle and Consumption Tax Developments**

For the present, it is difficult to imagine that this stable price situation could be disrupted suddenly. However, from a long-range viewpoint, being overly optimistic is not warranted. Reflecting the strong expansion of the economy, supply and demand of both products and labor, which affect price movements, are tightening rather rapidly. In particular, further reductions in unit wage costs will be difficult to achieve because production growth must slow down from the fast rate maintained in the past.

Also, in the monetary field, the growth in money supply is continuing at a high level, as in the past. As can be seen from the fact that the corporate ready liquidity shown in the BOJ's November short-term forecast is at unprecedentedly high levels, corporate capital is extremely easy.

In view of such economic and monetary conditions, one should not be too optimistic about future price trends. I think that it is important for the BOJ to continue paying attention to small details, including the economic and price situation in the United States and the European countries, crude oil price trends, etc.

I would like to add the following remarks about future price trends.

First, I would like to comment on the coming spring labor struggle. Of course, wage increases should be negotiated and settled independently by labor and management, but I sincerely hope that both parties will fully realize that price stability is the foundation for continued growth of the Japanese economy and settle basic wage increases at an appropriate level that will not adversely affect the entire economy.

Secondly, I wish to comment on the current tax reform, including the introduction of the consumption tax, and commodity price problems. In order to introduce the consumption tax without a hitch and to implant it firmly, the smooth transfer of taxes to commodity prices is essential. If the situation develops where there are widespread price increases exceeding the consumption tax levy, that is, price increases added on to the tax, not only will people's trust in the consumption tax be damaged but inflation fears might be incited and the foundations of price stability will be shaken. I am deeply interested in future price trends following the introduction of the consumption tax.

#### **Expect To Correct External Imbalances**

Next, an examination of the external trade balance trends reveals that just as foreign demand is showing a minus growth, the volume of the surplus is definitely falling. The dollar surplus is still high, but it has decreased considerably compared with past figures. For example, comparing the current account surplus against GNP, the ratio rose to 4.4 percent in FY86, after which it declined rapidly from FY87 and decreased to a 2-percent level in the first half of FY88.

The latest trends in exports and imports show that the export volume is increasing slightly, partly due to the unexpectedly strong overseas economies. In prices, too, export prices are rising while in imports, crude oil spot prices are beginning to rise through OPEC agreements. Since the prices of arriving shipments are still low, however, the price of surplus reduction has been slowing.

Regarding this point, however, our country is presently in a structural readjustment stage, and as overseas local production enters into full-scale operation in many industries in the future, we can expect to see the effects on export restraints. For imports, on the other hand, continued high growth centered on products can be

anticipated in view of strong domestic demand. For this reason, the improvement or external trade imbalances, at least on a volume basis, can be expected to continue in the future.

The BOJ expects that external imbalances will be steadily rectified through the continued expansion of domestic demand, while price stability is maintained, and through sound adjustment efforts in both the export and import fields, particularly in imports through market liberalization, the easing of various restrictive controls on competition, and continued efforts to promote the reassessment of various practices.

Under these internal and external economic conditions, the BOJ for the time being plans to maintain its existing basic position on executing monetary policies, but intends to remain vigilant so that the foundation of price stability will not be shaken even under unforeseen circumstances.

#### **Finishing Touches on Interest Rate Liberalization**

Lastly, I wish to comment on problems faced by our country's monetary and economic circles. First, for the monetary field, coping with monetary internationalization and liberalization is the biggest task. We are beginning to put the finishing touches on interest rate liberalization, however, with the focus on liberalization of small-deposit interest, i.e., the introduction of so-called small-denomination MMC's [money market certificates], and a reevaluation of short-term prime rates.

Last November, with a view to enhancing the effectiveness of monetary policies through increased utilization of the interest rate mechanism, the BOJ introduced open market operations for short-term (less than 1 month) commercial paper. In response, the market has decided to simultaneously begin short-term commercial paper transactions and long-term uncollateralized call money operations.

Developments since then have generally proceeded as we intended, but we expect to continue with new programs and endeavors and hope that interest rate decisions can be made even more smoothly by the different markets.

Second is the problem of how to maintain stability in the monetary system. Together with the introduction of electronics in monetary functions, progress in monetary liberalization and internationalization has intensified fund transfers internally and externally and the volume of monetary transactions and accompanying account settlements has increased drastically in recent years. Moreover, the monetary markets of the leading countries have strengthened mutual relationships and are moving further toward integration.

In such a situation, in order to ensure stability in the monetary system and to promote the sustained development of the world economy, it becomes essential above all to assure stability and efficiency in the account settlement system.

In mid-October last year the BOJ started the so-called "Nichigin network" for on-line handling interbank fund settlements. This action stemmed from the aforementioned awareness of the need to assure stability and efficiency in the settlement system.

#### **Promote Market Liberalization and Contribute to the World Economy**

The Japanese economy holds an important position in the world, while the global economy is facing important problems which must be solved, including external trade imbalances among the main countries. In this situation, foreign expectations about Japan's role and contributions are higher than ever. As an attendee at the annual IMF and World Bank general meetings, I personally sensed how strong the world's expectations were toward Japan.

In this situation, it is important for our country to correct external trade imbalances while aiming for an affluent national livelihood and, at the same time, to continue sincere efforts to contribute to the world economy by playing a role commensurate with our national economic power.

From the standpoint of making the national livelihood truly affluent, correcting today's price structure is an important task. Our country's prices are stable at present, but as far as price levels are concerned, one cannot really say that the differences between foreign and domestic prices have been reduced substantially in spite of yen appreciation.

Therefore, I believe it is extremely important that market liberalization and deregulation of various controls be pushed forward resolutely. If that action is taken, I believe firmly that, "like killing three birds with one stone," it will have the triple effect of assuring price stability, facilitating the continued development of our country's economy, and also contributing to the stable expansion of the world economy by correcting our country's external trade imbalances.

**\* Widespread Economic Prosperity To Continue**  
41060062 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 8 Feb 89 p 13—FOR OFFICIAL USE ONLY

[Roundtable discussion by Tai Kasai, chairman of the Japan Economic Research Center; Yoshio Suzuki, director of the Bank of Japan; and Kazuaki Harada, managing director of the Sanwa Institute: "Searching for Large-Scale Prosperity"; moderator is Ryoki Sugita, assistant chief of the NIHON KEIZAI SHIMBUN editorial department and chief of the economic department; first paragraph is boxed material]

[Text] The expansion of business conditions is continuing, so Japan is getting on track for large-scale prosperity



with the objective of an "Izanagi prosperity" (which lasted for 57 months in the latter half of the 1960's). If this prosperity were to fail, what would be the cause? How should financial policy be managed? We had Yoshio Suzuki, director of the bank of Japan, Kazuaki Harada, managing director of the Sanwa Institute, and Tai Kasai, chairman of the Japan Academic Research Center, discuss these questions.

### The Reason It Has Endurance

[Sugita] It is possible that the current expansion of prosperity will continue for a fairly long time. In what way is the endurance of the prosperity apparent?

Suzuki: It is expanding by means of an autonomous benign cycle in which plant and equipment investment and personal consumption stimulate each other. Behind the plant and equipment investment and restoration of personal consumption at the time Japan recovered from the strong-yen recession, there were the policy stimulations of easing money and expansion of public investment, and the stimulation of the benefits of the strong yen, which came from outside. But after that kind of stimulation was cut off, the growth in plant and equipment investment and personal consumption from the end of 1987 into 1988 circulated well with each other and began to continue independently.

At the time of the Izanagi prosperity good conditions continued for 5 years, and when we compare current plant and equipment investment and personal consumption with that period, in fiscal year 1989 there exist in full measure the conditions for continuation of a still more favorable cycle. That is, when consumption and domestic demand begin to expand this much, excess supply will not occur even if plant and equipment investment grows by about 10 percent. Furthermore, if plant and equipment investment grows that much, personal disposable income will also continue growing still larger.

[Sugita] What about points which do not resemble the Izanagi prosperity?

Suzuki: What is different is that at that time there was also plant and equipment investment which was induced by exports; in that sense there was stimulation from outside. Now it is a purely domestic benign cycle.

Another reason why it is more advantageous now is that we are entering a period of technological innovation. It is a time when innovation centered on semiconductor-related technology has just begun, so I think there are still items to be developed in all kinds of industries.

Kasai: At the time of the Izanagi prosperity growth exceeded 10 percent, but now, even though we say that business conditions are good, it is about 5 percent, so in a certain sense it is small potatoes. Conversely, it has a solid side. When we consider such things as the rate of

inflation, it is better now. That is, on the quantitative side, the growth rate is smaller than the Izanagi, but in a qualitative sense it has any number of points which are better.

A number of conditions that were a worry to the Japanese economy are also making progress—financial reconstruction, for example. There are problems concerning the future of the world and U.S. economies, but at least the world recession that many people expected at the time of the October 1987 crash in stock prices really does not exist; rather, the U.S. economy grew by 4 percent in 1988 and, simultaneously, there were good business conditions in the world, including in both Europe and ASEAN (Association of Southeast Asian Nations).

Harada: In the case of personal consumption, while its growth in general was high the year before last, there was little growth in working households. In that sense, there was unstable consumption, with something behind it rather like a boom in sophisticated financial management. But last year it spread, and the consumption of the general public has risen steadily. In the future as well, continued growth in personal consumption, including such changes in the breadth of the spread and in consumption behavior, can very much be anticipated.

Concerning plant and equipment investment, if we use such things as the Bank of Japan's Short-Term Observations (Survey of Enterprise Short-Term Economic Observations) for reference, since the beginning of last year investment for the purpose of increasing capacity has had a growth rate of over 50 percent compared with the previous year. Is this not because there was rapid growth stemming from a sense of good business conditions in the future? I have a somewhat different view from you, Mr Kasai, on the point of what will happen in the future.

When we check the Izanagi prosperity, like a camel's humps, it rose once, fell again, and then rose again and became the longest. Why did what had fallen once rise again? I think that one factor behind it was that exports increased suddenly because of special demand due to the Vietnam conflict, and that led to the second hump. As to whether such conditions will exist in the international economy of the future, when one considers the position in which Japan is placed, it would be very difficult to predict.

[Sugita] What gave rise to the interaction of investment and consumption?

Suzuki: I think there were two things: policy stimulation and the effect of the strong yen. But the interaction and the favorable cycle after getting back on our feet are operating without such stimulation. As to why that happened, one reason is that there was no full-fledged increase in plant and equipment investment following the second oil shock. There was a slight rise immediately

before the Plaza Agreement (the G-5 Agreement of September 1985), but it fell in the recession following the Plaza Agreement. The growth rates for equipment inventory and supply capacity had reached fairly low levels. At that point, the current rise emerged; speaking from the principle of inventory adjustment, from the beginning there existed conditions for fairly continuous growth in plant and equipment investment. If plant and equipment investment grows, the multiplier effect is very great, so increased personal income and consumption emerge.

Kasai: Concerning the point of why the strong-yen recession turned into strong-yen prosperity, I think that three effects operated: the effect of improving the terms of trade, the effect of easing money, and the effect of government finance. In that sense, classic economists say that it is the terms of trade, monetarists say that it is the money supply, and Keynesians say that it is the fault of government finance, and they are all saying that they won (laughs). Each is true.

The belief that a strong yen stabilizes prices over the long term has continued in our lives. The fact that the strong yen stabilized prices, and that the current prosperity has continued without uneasiness about the international balance of payments has truly become the cause of the prosperity's staying power.

Even though we say "a strong yen," at the time of the repeal of the gold embargo, for example, the government budget was severely tightened and the international balance of payments went from neutral into the red, so money could not be relaxed either. But in the current case the yen was strong, the money supply was relaxed, and added to that, government finance was put to work. And in the case of the strong dollar of the 1980's, government finance made up for it, but interest rates were high and the dollar was strong. This time, because of the strong yen interest rates are the lowest of any developed country. Moreover, government finances have somewhat recovered their balance, so conditions have come together which are completely different from what has been common sense regarding a strong yen up to now.

For example, the America of a strong dollar and high interest rates experienced deindustrialization, but in the Japan of a strong yen and low interest rates there are a great many investment opportunities, so deindustrialization will not occur.

Harada: The efforts of industrial circles in response to the strong yen were immense. I think that in such things as their flexibility with respect to the environment, their efforts to slim down enterprises, and their forward-looking manner of grappling with the development of technology and investment, the skillfulness of Japanese enterprises' response to the strong yen, or their efforts, had a lot to do with it; and I feel that things would not have gone this well had there not been this kind of suitable response to the strong yen.

### What About Fiscal Policy?

[Sugita] Mr Kasai, you seem to view fiscal policy as the greatest cause for concern. How should the government manage fiscal policy?

Kasai: There is a considerable conflict between moves on the fiscal side and the side of material objects. For instance, West Germany has a large current account surplus, and prices have also not gone up that much. Why does a country with an unemployment rate which is all of 8 percent raise interest? They say that it is because the mark must be corrected because it has become weak.

I think that fiscal policy should center on the fundamentals, that is the on the current account balance, the material economy, or basic prices. Of course, there are concerns about inflation in liberalized money markets, so naturally it is all right for the money market rate to rise. But I think that for fiscal policy to seize too nervously on price rises caused by a turbulent weak yen or strong dollar is a problem.

I would like to have the government consider things by focusing on the question of whether domestic inflation not influenced from overseas is really more of a problem than a simple business upturn.

[Sugita] In that case, right now, what about the current low-interest policy?

Kasai: Japan is the world's largest creditor nation; there are concerns that for Japan to raise interest rates would expand the interest competition which has been produced in the present situation of a strong dollar, weak yen, and weak Deutsche mark [as published], so I would like the government to consider it as prudently as possible. I suspect that as the number two power in the world, it is no longer necessary to think that Japan has to have a recession immediately just because America had a recession.

Harada: When the Bank of Japan manages fiscal policy, even if the base is domestic prices, I would like to have the bank also give secondary consideration to exchange-rate stability in managing things. This time, a new formula short-term prime rate has been adopted in Japan, and a so-called reform of short-term market interest has been carried out, so I think that directions which are quite different from those up to now will also emerge in official rate policy and other fiscal policy.

[Sugita] Do you think that interest should be raised automatically if concern over inflation emerges?

Harada: The upward guidance of interest rates has a considerable effect in real terms, so...I, too, cannot yet come to a conclusion as to whether it is good to immediately tie that to the official rate.

[Sugita] President Sumita of the Bank of Japan is showing strong concern about inflation nowadays at press conferences and so on. What is the real meaning of that?

Suzuki: I think you can accept what he is saying just as it is, at face value. It is probably certain that the risk of inflation will be higher this year than last. Therefore, one thing he is saying is that he will watch price trends more and more closely.

Second, he is saying that he nevertheless wants to continue watching without presuppositions. For instance, in the autumn of 1987 wholesale prices rose at an annual rate of 4 to 5 percent. At that time we, too, prepared for trouble, but after that the stock market crash occurred and the yen became much stronger, so concern about inflation blew away and, last year, domestic retail prices fell again. There are also things like this, so the president said, "but I will go on watching without having presuppositions."

Third, he said that should concern about inflation emerge, he would respond promptly so as not to be too late.

In regard to fiscal policy, Mr Harada earlier put forth the "two-humped camel" theory concerning the Izanagi prosperity, but I think it was fiscal policy which created the "two-humped camel." By raising the official rate twice, fiscal policy lowered the very high growth of the money supply, which was designed to revive business conditions, to growth that caused prosperity to continue for a long time.

A very important lesson is contained here: To maintain long-term prosperity it is necessary at the proper time to convert a fiscal policy stance which stimulates the recovery of business to one which causes a rise in business conditions to continue. What is inflation? I am placing the stress on the point of the inflation rate beginning to accelerate, more than on the level of inflation.

Speaking about this year, I think there will be nothing to worry about if, after the consumption tax is introduced and the inflation rate jumps in April, the situation continues becoming more stable as a month-to-month operation, and when 1 year has passed, the amount of the rise has peeled away. If such is not the case, and all sorts of things pile up, and the feeling emerges that inflation is likely to continue accelerating, it will be necessary to correct the policy stance and stop the acceleration without delay.

For the purpose of price stability, it is better to have a moderately strong yen—a weak yen is trouble. Japan pays attention to the exchange rate purely as a means of domestic price stability; it does not consider the exchange rate itself to be a goal of roughly the same importance as prices.

[Sugita] That means that we learn from the Izanagi prosperity that moderate tightening is important, but I also suspect that the degree of influence or the international impact of Japan's bank-rate policy is probably different compared with that time.

Suzuki: To be sure, the international influence of the Japanese interest rate is greater than it was then, but at the same time, international influence on the trend of the Japanese economy has also become very great. The fact that inflation is not generated in Japan has also become incomparably more important to the world economy than it was then. All the nations of the world will support revision of the level of the bank rate for that purpose. The fact that it has not changed much from a bank-rate level which stimulates business conditions means that it continues to be revised to a level that corresponds to a continuous rise in business conditions.

#### If It Were To Fail...

#### Prices and the Exchange Rate

[Sugita] If there were something that would cause this very enduring expansion of prosperity to fail, what would it be?

Suzuki: Last year Japanese prices were very stable. Wholesale prices fell, and consumer prices rose only 0.7 percent. But if we check one by one the causes that brought about last year's price stability, there is a danger that all of those factors will disappear this year. Or else there is a danger that they will reverse themselves and turn into factors that raise prices. First of all, viewing it in broad terms, last year there still existed sufficient surplus supply capacity, but as is clear just by looking at the (rise in) the rate of equipment operation, this year broad supply and demand will begin to tighten up.

Second, although it appeared that somewhat of a bottleneck, a condition of scarcity of goods, was likely to emerge in Japan last year, a large volume of inexpensive goods came into Japan from NIEs (newly industrializing economies) and other Asian countries and cooled down the situation. Supply and demand for the entire world will begin to tighten up this year, so the surplus supply capacity of neighboring Asian countries will also become smaller than it was last year.

Third, we must assume that the exchange rate will continue to be fairly stable this year. Last year, on average, the yen became 13 percent stronger, but if we compare the beginning and end of the year, it was stable. We must assume at this point that another 13 percent of the strong-yen effect will disappear.

Fourth, last year the price of crude oil declined considerably until about October, but against the background of the OPEC (Organization of Petroleum Exporting



Countries) production ceiling agreement, the price rose slightly. It must not be forgotten that a strong cost-push will occur if the yen weakens or crude oil becomes expensive.

Meanwhile, domestic wages will also begin to rise this year. According to government calculations, consumer prices will rise 1.2 percent as a result of the introduction of the consumption tax in April. When we look at the above matters together, we see there is a danger that the expectation of general prices increases will emerge somewhere. I think that at that time, as rational actions, enterprises will probably try to buy things as hastily as possible while they are cheap, and will probably try to raise prices as much as possible.

Harada: I think that there are five uncertain factors: The possibilities of a weak yen, of rising crude oil prices, of a rise in the average rate of salary increases in the spring, the problem of raising prices to take advantage of the consumer tax, and the tightening of supply and demand. The one whose influence on prices is overwhelmingly great is the exchange rate. If the market price of yen vis-a-vis the dollar declines by 10 yen, wholesale prices rise by 2.5 to 3 percent. Even if the price of crude oil rises by \$2 a barrel, it will push up wholesale prices by only about 0.3 percent, so the influence of the exchange rate is greater. If the increase in the average wage in the spring is within 5.5 percent, the influence exerted on the unit labor cost will not be particularly great. On the other hand, as to price rises attributable to the consumption tax, there will also be a lowering of the commodity tax, so I am not worrying about it that much.

But it is possible that the tide will change in the future, and it will become a trend toward a strong yen and a weak dollar. If such a trend develops, one would not have to worry that much about the problem of inflation, would one. Japan would be able to ride things out without going so far as to venture to raise the official rate, would it not.

Kasai: It is natural that if business conditions are good, to a certain extent prices and interest rate also firm up. Contrary to what one might expect, one will make a mistake if one perceives this natural movement as something which should be guarded against. When we think about Japanese inflation, worrisome factors are a weak yen and insufficient supply capacity. It is said that investment in plant and equipment is bad because supply capacity increases, but conversely, it is possible for supply capacity to become deficient and prices to go on an upward trend because proper investment in plant and equipment had not been carried out. But as to just how far prices would rise, it would probably not be all that much as long as the yen does not become too weak. Furthermore, concerning the fact that to a certain extent prices rises accompany improvements in business conditions, the rise in prices will be restrained by the fact that (market) interest will also rise, so it is uncertain whether, as a policy stance, one should respond to it as a

recurrence of inflation. Unless one adopts that policy (which perceives a recurrence of inflation), I do not think that the trend of prosperity will break down just because the rate of price increase rises to a limited degree, and the very low interest rises slightly to low interest. I think that the expansion of prosperity will be maintained unless a mistake is made in the proper nature of the fiscal policy in order to respond to the financial vicissitude of a weak yen.

### How Will the U.S. Economy Behave?

[Sugita] What about the direction of the U.S. economy, which influences Japanese business conditions?

Suzuki: U.S. business conditions overheats, and inflation advances. The trade deficit expands, the dollar declines, and interest rates rise suddenly. If that happens, financial uneasiness also emerges, chief among which is the problem of accumulated debt. It is uncertain whether this string of events will occur.

The so-called natural rate of unemployment, the rate at which the U.S. economy can continue without accelerating inflation, is about 5.5 percent, is it not? Right now the unemployment rate is 5.4 percent (January), so it has declined to the level at which inflation accelerates, and last year's growth was 3.8 percent. That, too, came out on the low side because of the effect of the drought, so when we adjust for the influence of the drought, it ends up as 4.2 percent. Up to now, the majority theory held that viewed in the long-term, the latent growth rate is about 2.5 percent, so it is increasing at a speed which far exceeds its capacity.

But there are also voices that point out structural changes in the labor market, so the latent growth rate may be between 2.5 and 3 percent. The natural growth rate may also have declined to between 5.0 and 5.5 percent. If such is the case, it is still too early to state positively that deceleration of growth will not be in time, and that inflation, high interest rates, and a weak dollar will occur without fail. I think that in the future as well we must very carefully watch the tempo of deceleration of growth and acceleration of inflation.

I think that if, by chance, it were to come to the bad scenario, it would impact on the Japanese corporate mind, and consequently, it would exert some kind of influence on Japanese business conditions beginning in the second half of this year and into next year.

[Sugita] Is the fact that it is difficult for the yen to rise also based on the fact that the continued endurance of the dollar on the interest market?

Suzuki: Yes. If we take it that U.S. interest rates will probably be high for the present and because of that, growth will slow down and the inflation rate will peak toward next year, it means that real interest rates are

high now. People who take that interpretation will probably go on investing in dollar assets. I think that is the basic background to the dollar's unexpected endurance.

Harada: I very much feel that the view of the United States having a latent growth rate of 3 percent has emerged somewhat intentionally in order to justify the flexible freeze. Until now, the U.S. balance of trade has been improving rapidly, supported by export growth with an annual rate of almost 30 percent. But that much reserve export power will not continue in the future, and it is possible that imports will increase if the reserve supply ability approaches its limit. Actually, the U.S. trade balance for November 1988 was a deficit of \$12.5 billion, and compared with the previous month it showed exports decreasing and imports increasing. In a certain sense, one can also look at it as reflecting the fact that the U.S. rate of equipment operation has reached a 9-year peak, and America's reserve supply power has approached its ceiling. Will not uneasiness about the future of the dollar emerge again if President Bush also sticks to the flexible freeze in the future, and if the U.S. trade balance drags along without improving or perhaps begins to worsen?

Kasai: I have been consistently optimistic about U.S. business conditions, and think that growth, too, will work out in the proper manner. The United States has kept going along although every 6 months it was said that it was going to have inflation or a depression; somehow or other it will probably get along this year, too, don't you think?

Moreover, the fact that the yen has become weaker is increasing inflationary concerns for Japan, so the strong dollar is the problem. There is something strange, overall, about the present strong dollar. One thing is that if there is concern in America about inflation, and interest rates rise and the dollar is strong, it is strange for the dollar to become strong despite the fact that real interest rates will not have risen if the concern about inflation is correct. It is an illusion, so it should not continue all that long.

A continued strong dollar greatly advances world pressure to raise interest rates. I think we should worry rather about the fact that the condition in which the present strong dollar continues might produce competition on a global scale to raise interest rates.

**\* BOJ Foresees Continued Strong Economy**  
41060079 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 4 Mar 89 p 4—FOR OFFICIAL USE  
ONLY

[Article: "Economic Optimism at High Level"]

[Text] On the 3d of this month, the Bank of Japan [BOJ] announced the results of its latest short-term economic forecast survey conducted in February. According to

responses gathered from the major companies targeted by the survey, the economic outlook shows the same high level of optimism as it did during the period 1965-1975, when the economy was in its highest growth period. The main theme running through the responses gathered by the survey was that expanding domestic demand and high export volume are pulling the economy forward. Among the companies involved in the survey, manufacturing firms reported that their 1988 investment in new equipment and facilities had reached the highest level in 9 years, and they plan to continue investing through this first year of the Heisei era. The Bank of Japan's statistics office announced that "there will be no economic downturn this year." Although the BOJ claims there is no reason to fear a large jump in prices, it continues to keep an eye on consumption trends and labor demands that could have a constricting effect on the economy.

According to the 648 firms participating in the survey, the economic forecast index (a rating system in which companies express either an optimistic or pessimistic short-term forecast) from the manufacturing sector showed an optimistic rating of 52, which is up 4 points from the 48-point rating in the November 1988 survey. The February survey indicates that manufacturing firms are expressing the same high level of optimism found in the November surveys of 1967 and 1973.

The survey also showed that domestic chemical firms indicated the same high level of optimism about the economy which they had in November 1976. The exporting steel producers, electronics firms, and precision machine manufacturers who responded to the survey indicated an index rating of 60, the highest rating from this sector since the 69-point rating in the 1973 survey. The BOJ statistical office explained that, "supported by a healthy domestic demand for their products, export-oriented manufacturing firms are optimistic and welcome the balancing effect of domestic demand."

On the other hand, the forecast from the nonmanufacturing sector climbed to a new high of 47, compared to a 44-point rating in the last survey. Looking at the forecast trends of individual categories in this sector, service-oriented businesses are exhibiting an attitude of self-restraint as represented by their expression of a lower (more pessimistic) index rating compared to the last survey. Utilities, transport companies, and trading houses, however, have expressed a higher degree of optimism compared to the last survey.

Equipment and facilities investment, often called the economy's "trailer," is, as usual, forecast to remain strong. The amount reinvested by manufacturing firms in 1988 showed a 28.6-percent increase over 1987 and is projected to increase an additional 9.1 percent during

this first year of Heisei (1989). The BOJ has revised its forecast and predicts that this upward trend will continue for two years.

The supply and demand index for products, an indicator which is calculated by subtracting the number of products in oversupply from those in high demand, shows a minus 2 rating for the manufacturing sector. Because this is the index's smallest negative value since the 1965-1975 decade, when the economy was at its greatest rate of expansion, it shows a general trend toward a balancing of supply and demand.

The employment index, an indicator calculated by subtracting the number of overstaffed firms from those that are understaffed, currently shows a rating of minus 20 for the manufacturing sector. This is a 3-point drop compared to the results of the last survey. The nonmanufacturing sector currently exhibits a rating of minus 26, a 6-point drop from the last indicator. These ratings indicate a general movement toward a more balanced relationship between labor supply and demand. If this forecast is extended to June for the manufacturing sector, an extension which will include the new crop of graduates who will be joining the work force in April, there should be a further 14-point drop, which would indicate a more balanced employment supply and demand ratio.

The BOJ statistical office reports that "the economy continues to approach its maximum capacity. Furthermore, we need not be concerned with the fear of price increases for the foreseeable future." In light of the fact that we cannot expect an indefinite continuation of the high yen's stabilizing effect on commodity prices, we must not forget the tendency of crude oil prices to increase. Accordingly, it is important that we keep a close watch on commodity prices after the new consumer tax goes into effect in April.

**\* EPA Survey Shows Business Boom Accelerating**  
41060072 Tokyo SANKEI SHIMBUN  
in Japanese 8 Feb 89 p 9—FOR OFFICIAL USE ONLY

[Text] On 7 February, the Economic Planning Agency (EPA) published surveys of corporate and consumption trends (October-December 1988). They showed that capital investment plans for the first half (January-June) of 1989 will be 8 percent higher than the strong performance that was expected for the latter half (July-December) of 1988. Also, the consumer attitude index, which indicates the will to buy, is at the highest level ever, and this shows that consumption continues to drive the economy. The only source of anxiety is fear of rising prices. EPA maintains that if prices settle down, a business boom equal to or greater than the "Izanagi boom" (57 months) can be anticipated.

# Survey of Corporate Trends

Capital Investment Increase	FY88 Projected Performance	Jan-Jun 89 Plans
All industries	22.8	8.0
Manufacturing industries	28.9	14.6
Food and foodstuffs	23.9	22.5
Textiles	42.5	4.7
Paper and pulp	23.3	24.4
Chemicals	15.2	7.8
Petroleum and coal products	-6.1	-11.6
Steel	6.5	24.9
Nonferrous metals	51.8	24.6
General machinery	49.1	13.0
Electrical machinery	40.2	6.3
Automobiles	27.8	5.7
Printing and publishing	52.5	34.7
Nonmanufacturing industries	19.2	5.0
Wholesale and retail stores, restaurants	28.7	-0.2
Real estate	53.2	12.0
Construction	12.7	-22.0
Transport, telecommunications	8.2	13.9
Finance, insurance	21.8	5.5
Electric power	4.2	0.2
Leasing	27.7	6.8

Note: First column is the ratio against the previous year, and the second column is the ratio against the previous term.

According to the (December 1988) survey of corporate trends, it has become clear that the capital investment plans (seasonally adjusted values) for all industries for the first half of this year (January-June) will be at a favorable level, 8 percent greater than the projected performance for the last half of 1988 (July-December).

As a result, capital investment for FY88 will be revised upward by 2.3 points to a 22.8 percent increase from the last survey in September 1988 (expected to be a 20.5 percent increase over the preceding fiscal year). This will be the first high rate of increase in 8 years (in FY80, it was 24.7 percent). This is due to the fact that the desire of the manufacturing industries to invest has soared because the corporate earning environment has improved and a sense of an equipment shortage has emerged.

This survey was implemented on 1 December 1988, and covered 4,082 firms with capital of at least 100 million yen (rate of response was 96.1 percent). Quarterly capital investment is expected to rise smoothly; the rate of increase for each quarter compared to the preceding quarter is expected to be 3.9 percent for October-December 1988 (predicted performance), 5 percent for January-March 1989, and 1.8 percent for April-June 1989.



What stands out is that the increase in capital investment by manufacturing industries during this fiscal year is expected to be 28.9 percent higher than the preceding fiscal year. It is over 20 points higher than the 6.8 percent increase in FY87, and it is 4.3 points higher than the 24.6 percent predicted by the last survey. It is due to the fact that shortages were anticipated for pulp and paper, chemical, nonferrous metal and steel products, and this drove up investments across the board.

Investment by nonmanufacturing industries also rose steadily; the rate of increase for FY88 as a whole was 19.2 percent, an upward revision from the 18 percent of the last survey. However, investment by the construction industry has continued to decrease since the July-September quarter (8 percent lower than the preceding quarter) in 1988. This was due to shortage of workers as well as the fact that although construction on hand was plentiful, there were more cases in which construction equipment was replaced by leased equipment.

Moreover, anticipation of equipment shortages has grown in 11 industries, including the electrical machinery industry, and EPA expects that "in the future, instead of investments for R&D and technological innovation, which accounted for the major share of capital investments, there will be considerable investment to increase capacity."

In the survey of consumer trends (implemented in December 1988), the October-December 1988 consumer attitude index, an index of the willingness to consume, was 49.3, a 1.8 percent increase compared to the preceding quarter. This is the highest level reached since being adopted as a new index in June 1982. One peculiarity, however, is that more and more consumers say that prices will rise in the future.

This index was calculated on the basis of a survey of 5,025 households all over the country.

The consumers sampled in the above survey said that 8 out of the 10 survey items had improved when compared to the previous year. This included "income," "consumer satisfaction" and "employment." Only two items, "consumer prices" and "percentage of income taken up by consumption," were said to have worsened somewhat. Also, the only items that were expected to worsen in the next year were "consumer prices" and "percentage of income taken up by consumption."

**\* Continuing Domestic Economic Boom Analyzed**  
41060085 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 8 Mar 89 p 3—FOR OFFICIAL USE  
ONLY

[Article: "Economic Planning Agency Refutes the Bank of America's Interpretation of the 'Izanagi' Boom"]

[Text] The Economic Planning Agency [EPA] concluded that the reason the "Izanagi" economic boom lasted nearly 5 years (October 1965-July 1970) was "due

mainly to expansion of the U.S. economy, which enabled Japanese exports to rise substantially." This statement refuted the Bank of Japan's assertion that the two increases in the official bank rate during the period of the "Izanagi" economic boom "were responsible for warding off inflation fears and for sustaining Japan's economic growth." Currently, when the United States and Europe, concerned with possible inflation, are watching how Japan guides its financial policy, deciding a winner in this confrontation of "historical evaluations" is likely to generate a great deal of discussion.

Early this year, with the continuing economic boom in Japan becoming the focus of international attention, the Bank of Japan made the statement, directed toward foreign countries, that "it is very important to review the reasons why the 'Izanagi' economic boom lasted 57 months. We adopted a precautionary monetary policy in dealing with the situation, applying the brakes at appropriate times, so that growth would be sustained. The results were gratifying." This provides a theoretical basis which, in the future, when it is judged that basic price stabilization will collapse, will lead to the conclusion that monetary policy must be altered just as it was during the "Izanagi" economic boom period.

In the "100-Year History of the Bank of Tokyo," raising the official bank rate on two occasions—in September 1967 and January 1968—is the policy based on the judgment mentioned by Mr Usami, governor of the Bank of Tokyo: "Although current economic conditions differ from those of an overheated economy, a precautionary policy, aimed at preventing overheating of the economy, is clearly indicated." The opinion of the EPA, on the other hand, is that expansion of the Japanese economy at that time would have had an immediate adverse effect on Japan's balance of payments, and that the primary reason for raising the official bank rate, therefore, was to prevent that from happening. Furthermore, the reason the economy did not slow down in spite of tight monetary control, and then expand again, was that recovery in the world economy substantially increased Japanese exports; the agency thus concludes that "there was no cause and effect relationship between the longevity of the boom and the tightening of monetary controls." The agency's Deputy Secretary Takao Akabane states, "No doubt, the tightening of monetary control was partly responsible for the longevity of the boom and for price stabilization as well. However, the most important reason was the overheated U.S. economy. If we had not had that factor, the economy might have faced a setback."

**\* Bank Examines Stabilization Factors**  
41060085 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 9 Mar 89 p 3—FOR OFFICIAL USE  
ONLY

[Article: "The Bank of Japan Less Than Optimistic About Japan's Economic Future"]

[Text] On March 8 the Bank of Japan issued a report analyzing the relationship between recent economic conditions and prices. Currently, Japan is enjoying an

economic boom comparable to the "Izanagi" economic boom of the 1960's, as well as continuing price stability. The report points out that the effect of the "import safety valves," brought about by the high value of the yen, wage stabilization, and increased imports, made possible the coexistence of an expanding economy and price stabilization. As for the future, a warning signal was sent: "In addition to the deterioration of price stabilization factors, there is concern that the introduction of consumer taxes in April will trigger opportunistic price hikes. The report emphasizes that in order to maintain price stabilization, it is necessary to further open the domestic market, to streamline the distribution market, and to create a dynamic interface between public finance and monetary policy. The report provides a detailed analysis of the stability factors for wholesale price which has for the past 4 years remained low.

#### Decreasing Price Stabilization Effects

Price Stability Factors	Past Movement	Future Prospects
Yen currency market	High value of yen	Stable
Crude oil prices	Down	Potential strengthening
Labor cost per production unit	Decreased for 9 quarters	Increase Apr-Jun
Product demand/supply	Relaxed	Tighten up
Labor demand/supply	Relaxed	Tighten up
Import safety valves	Extremely effective	Less effective

Looking at production costs, we see that rising yen values and falling oil prices brought down prices of imported materials and goods; and increased production resulting from economic growth reduced labor cost per production unit (obtained by dividing the nominal wages by quantity of production) when compared with the previous year's figures, for 9 consecutive quarters (2 years, 3 months). This enabled industry to make a profit without raising prices. On the product demand and supply side, the report points out that because of stabilized prices, risky investment to increase inventory did not take place, and that this factor, together with the "effects of import safety valves" that realized domestic price stabilization through low-priced imports, effectively contributed to the stabilization of wholesale prices. As for future price developments, the report states "we do not anticipate the immediate collapse of the present price stabilization structure; however, the price environment is becoming increasingly severe." Crude oil prices and commodity markets show a definite trend toward price escalation. Furthermore, the yen exchange rate has been stable for more than a year now, making it difficult for industry to count on additional effects from the price stabilization. The likelihood that labor costs will increase for the period April to June and the gradual tightening of product demand and supply already happening are matters of concern for future price developments. Taking these factors into consideration, the report suggests the following measures to maintain

the current price stabilization: (1) that nontariff barriers should be abolished to further open up domestic markets so that the import safety valve effects may work, and (2) that public financial policy should allow flexibility so that implementation of the budget can be delayed if economic conditions warrant it.

#### Officials Work To Counter Consumption Tax

OW0104020689 Tokyo THE JAPAN ECONOMIC JOURNAL in English 1 Apr 89 p 4—FOR OFFICIAL USE ONLY

[By staff writer Izumi Oshima]

[Text] Japan has a tax rebellion on its hands. And it's not being led by the taxpayers, it's being led by some of the tax administrators.

On Feb. 20, Tokyo Metropolitan Governor Shunichi Suzuki proposed a plan to spare city residents part of the burden of Japan's unpopular new 3 percent consumption tax, which is scheduled to go into effect in April.

Suzuki said he will apply the tax to some public utilities and services provided by the city, while postponing the levy on other services. But at the same time, he will lower the utilities' charges by 4 percent through cost-cutting measures, such as a reduction in the number of public employees.

As a result, charges for water supply and sewerage services will be reduced, and rents for public housing and garbage collection fees will remain the same, even after the introduction of the consumption tax.

Almost immediately, local governments throughout Japan devised their own schemes to either delay or mitigate the tax.

Five other prefectural governments—Aichi, Chiba, Hyogo, Kyoto, and Miyagi—have announced they also will at least postpone the additional 3 percent charge for public utilities. Fifteen more regional governments say they will only tax some of the utilities, while 120 cities and towns plan the utilities, while 120 cities and towns plan to delay the imposition of the levy.

#### More Politics Than Administration

Why the sudden urge to buck the national government?

The local officials have a variety of explanations. Some say the April imposition of the tax will create an administrative nightmare for them. Others say they need more time to explain the levy to the taxpayers.

But some observers have suggested that it has a lot more to do with politics than administration.

A Tokyo assembly election is scheduled for July. And a tax hike, coupled with the fallout from the Recruit Co. stock trading scandal, could spell political disaster for some officials, particularly those of the ruling liberal Democratic Party.

The LDP, of course, used its muscle to push the tax plan through late last year, angering both opposition parties and most taxpayers.

Tokyo Governor Suzuki, for instance, was said to have been under intense pressure from local LDP assemblymen to hold off the additional 3 percent charge until the July election.

"When a series of local and national elections are about to be held, it is quite understandable why so many local governments have decided to follow Tokyo metropolitan's lead," one observer said.

Apart from elections, some local assemblies are reluctant to approve tax-related bills because of pressure from opposition parties.

In many assemblies where the LDP is predominant but not overwhelmingly powerful, a body of opposition parties is trying to bury the consumption tax.

Yokohama's assembly failed to approve the consumption tax-related bills in time for the April introduction. Instead, the assembly approved a resolution, proposed by a coalition of three opposition parties, calling on the central government to abolish the tax.

The Osaka assembly carried out a similar action.

And even in Tokyo, which came up with the compromise plan for the tax introduction, an assembly committee March 24 rejected bills that would have added the 3 percent tax to subway and chartered bus rides. The bills still must go before the whole assembly for a vote.

#### Deep Concern

Although the national government Feb. 23 reiterated that the tax should be "properly passed along to the consumers," reactions to the local decisions by ministries and government agencies has been mixed.

Economic Planning Agency Director General Koichiro Aino and Bank of Japan Governor Satoshi Sumita supported the Tokyo move, while Finance Minister Tatsuo Murayama and Home Affairs Minister Shigenobu Sakano expressed "deep concern."

Sakano says his ministry will press local governments to pass along the tax to individual citizens, though it has no legal power to do so. It has dwindling political power to do so, as well.

The Takeshita administration, beset by criticism over the consumption tax and the Recruit scandal, is at a postwar low in popularity, recent polls show.

#### \* Macro-Effects of Tax Reform Studied

41060052 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 25 Jan 89 p 23—FOR OFFICIAL USE  
ONLY

[Article by Prof Kei Takeuchi of Tokyo University:  
"Economics Class"]

[Text] (1) When we examine the macro-effects of the current Japanese tax reform, first we see that the national income and the tax revenue will change proportionally due to the easing of the progressive tax rates as far as a direct tax is concerned, and the increasing of the indirect tax share, as a ratio between direct and indirect taxes.

(2) Consequently, the natural increase and reductions in revenue due to errors in estimation of tax revenue will become smaller and the tendency to expand expenditures in the supplementary budget will be reduced.

(3) Next, in the area of income distribution, there will continue to be a certain amount of unfairness. However, it is impossible to make immediate judgement about the effects upon household and corporate spending. Also it is difficult to say whether there will be an increasing supply capability due to tax reductions, as pointed out in supply side economics (which emphasizes supply).

(4) The effects of the tax reform cannot be ignored in the long run, so they should be carefully observed.

#### Growing Neutrality in Respect to Economic Conditions

The Diet has at last given its final approval to the tax reform bill. The new system has many weak points which have already been criticized in various fields, and I myself am not particularly satisfied with it. However, here I would like to examine the macro-effects of this tax reform.

Of course, specific effects of the tax reform upon each area will be complicated and diversified, so that it is difficult to predict how the reform will actually affect the macroeconomic index prior to its introduction. Also, even if we analyze the effects using macroeconomic models after the introduction of the reform, it will still be difficult to calculate the scale of the effects separate from other factors.

So, using the abstract hypothesis of a macroeconomic structure, let's examine how the parameter (medium variable) of the structural equation, which consists of this macroeconomic structure, changes because of the tax reform, and consequently what kinds of effects appear in the course of economic fluctuations.



Here, I would like to discuss two major points of the tax reform: changes in the ratio between direct and indirect taxes following the introduction of the consumption tax and the integration of the indirect tax; and general reductions of income tax and the decrease in progressive tax rates.

However, I do not intend to focus on the specific scale of these, but would like to examine which directions the effects will take. As long as the 3 percent tax rate is maintained, the effects of the consumption tax are not expected to be very large. So instead of referring to appropriate tax rate levels, let's examine this problem on the premise that the consumption tax rate is at a level which has a substantial influence.

Changes in the tax system, first of all, directly affect the tax function which indicates the amount of tax or the total amount corresponding to the level of gross national product. Even if tax rates are determined so as not to cause major changes in total tax revenue, despite changes in the tax system, at least the form of the short-term tax function will change.

If the progressive tax rates of the direct tax decrease and the ratio of the indirect tax increases, there will be less flexibility regarding an increase or decrease in the national income, from a macroscopic view point. In other words, this means that as the national income increases or decreases, the amount of tax will increase or decrease nearly proportionally.

On the other hand, if the progressive income tax is stressed, the tax amount will increase or decrease at a rate higher than that of the increase or decrease in the national income. In addition, even in the indirect tax, if an individualized commodity tax imposed primarily on luxury items is stressed, similar characteristics will appear.

This would be the same as increasing taxes under good economic conditions, when the national income is growing, and reducing taxes in times of recession. Therefore, this has a stabilizing effect on the economic growth rate.

The direction of the present tax reform will shift the flexibility of the tax amount toward changes in national income closer, becoming more neutral in respect to economic conditions.

#### **Finances Difficult To Expand**

The above-mentioned discussion was made with the assumption that financial expenditure and tax revenue are unrelated to one another. Yet, this is not so in reality.

When the economic growth rate increases more than initially expected, a "natural increase in revenue" occurs due to increases in tax revenue. In this case, it is normal for a "supplementary budget" to be compiled and government expenditure and investment to be increased.

Actually, during the high economic growth period, a relatively large-scale supplementary budget was formulated in this way every year.

If an increase in tax revenue is spent almost entirely in this manner, the gross national product will increase further through a multiplying effect. Because of this, if economic growth is further accelerated or if there is a bottleneck in supply capability, an increase in commodity prices will result.

Generally, when the economy is in good condition, initial expectations regarding it tend to be lower than the actual conditions warrant, so that under progressive tax rates, the rate of the "natural increase in tax revenue" will exceed the "surplus" of the growth rate of national income. Because of this, under these conditions, there is a tendency for the economy to accelerate excessively.

On the other hand, when the economic growth rate becomes lower than expected, then tax revenue will decrease also and so-called "revenue deficits" will occur. In this case, a supplementary budget for the reduced amount will seldom be compiled; and in most cases, the financial deficit will increase by that amount. Furthermore, in most cases, there is already a recession when the actual result falls below the expected amount. So, even then expenditures are not likely to be cut.

Accordingly, when a discrepancy occurs between the initial expectation and the actual result, the effect will be a movement in either a plus or minus direction, actually nonsymmetrically; and expenditures will tend toward continuously stimulating growth. Therefore, the stabilizing effect of the progressive tax will actually disappear under these conditions.

If the tax revenue becomes more proportional due to the present tax reform, the scale of the "natural increase in revenue" because of the "false expectation" on the growth rate and the scale of "revenue deficits" will shrink, so that there will be less possibility of expanding revenues which are linked to political pressures.

The next problem is how the tax system will affect various items which appear in the national economic calculation system directly or indirectly through corporate and household economic activities.

This can be divided into three aspects: distribution, expenditure, and production.

In distribution, there have been debates as to whether the present tax reform would "give priority to the rich," i.e., whether it would lessen the tax' income distribution effect. Some have considered this to be rather desirable, while others have regarded it as not so favorably, taking into consideration the burden of the consumption tax at the time of spending.

Here, instead of concerning ourselves over whether this is right or not, let's examine solely what macro-effects the combination of direct tax reduction and indirect tax increase will bring about.

#### Small Effects on Private Spending

Whether or not the consumption tax is reflected in goods/service prices will cause the situation to vary.

If the consumption tax is passed on, there will be no change in the nominal distribution amount. So, disposable income will increase by the amount of direct tax reductions while the price standard will increase by the amount of indirect tax. In this case, if there is no change in the distribution structure, the degree of unfairness in disposable income is bound to increase.

However, it is possible that increases in commodity prices may increase the real wages of the working class, which is rarely influenced by direct tax reductions. This causes a raise in wages, changes the distribution structure, and reduces the unfairness.

If the consumption tax is not passed on, commodity prices will not change, but the value added which companies gain will decrease by that amount, and accordingly the total amount of distribution income will decrease. Since the direct tax decreases, as a consequence, the total amount of disposable income will not change, but the distribution structure will.

It is difficult to forecast how this will change in detail, though changes in distribution structure will counterbalance increases in unfairness caused by income tax reductions.

In any case, easing of progressive income tax rates and introduction of the consumption tax will certainly increase unfairness to some extent.

Next, with respect to expenditures, we have to think about the effects upon consumption-saving activities in household economies and upon corporate investment.

In the macroscopic view of household consumption, if the limited consumption tendency does not greatly differ at different income levels, and if the real national disposable income does not change, the real consumption amount is not expected to change, regardless of tax structure. Therefore, when we examine this solely in relation to real amounts, it is safe to expect the macro consumption function to change the least.

However, at least over the short term, consumer activities are expected to be somewhat affected by changes in commodity price levels and in commodity price structure due to the introduction of the consumption tax. They are also expected to be somewhat affected by the psychological effects of income tax reductions, etc.

Whether or not this shifts the consumption rate in either direction will depend on which more strongly impresses consumers—increases in nominal disposable income due to income tax reductions or increases in commodity prices as reflected by a consumption tax.

In the realm of corporate investment, corporate income tax reductions are generally expected to stimulate investment. Yet, if the consumption tax is not fully reflected, corporate income may decrease. If it is reflected, prices will go up, and real investment amounts will eventually go down.

As for the overall expenditure structure, there will be some changes due to the tax reform, but it is questionable whether the effects will be large enough to be identified separately from effects caused by other conditions.

Next, let's examine supply side conditions. It has often been said that high progressive income tax rates limit the willingness to work and reduce the providing of services. This consequently lowers supply capability, or, more abstractly speaking, decreases the growth rate by diminishing "energy" in the national economy.

However, even given the difficulty in estimating the macro-production function, I do not think that this kind of situation has actually occurred on a macroscopic level. Therefore, conversely, because of the tax reform, large changes in the supply side are not expected to occur.

The "supply side economics" theory emphasizes that large increases in supply brought about by large tax reductions can increase tax revenue; but this theory no longer has credibility in the United States. On the other hand, I think the tax system thus far has neither drastically lowered the efficiency of the national economy on the whole nor hindered its growth.

With respect to supply, other institutional policy factors, such as work hours, are more significant than the tax system.

Generally, it is difficult to comment with clarity on the macroeconomic effects of the tax reform. Yet, these effects will take the same direction for a relatively long period of time, even if they appear small in the short term. Moreover, since they may cause long-term changes in corporate or household behavioral patterns, the effects should not be neglected. Therefore, I would like to stress that careful observation and research are necessary.

**\* MOF Studying Savings Interest Liberalization**  
41060081 Tokyo SANKEI SHIMBUN in Japanese 23  
Feb 89 p 9—FOR OFFICIAL USE ONLY

[Text] The Ministry of Finance [MOF], which ventured to take the first step in small savings deposit interest liberalization with the introduction of the small deposit

MMC (money market certificate) that will be introduced this June, has held another meeting of its Financial Issues Study Group. This group, composed of experienced financiers and economists and chaired by Tokyo University Professor Akira Kaizuka, is a personal advisory board serving the director general of the Banking Bureau. It has been charged with studying the future full liberalization of savings deposit interest. The liberalization of savings deposit interest, which began in 1985 with large fixed deposits, is at long last entering its final stage with the full liberalization of small fixed deposits and ordinary deposits.

The three subjects which the MOF has charged the study group with researching are: 1) the future interest liberalization of fixed deposits of less than 10 million yen; 2) liberalization of liquid savings deposit interest; and 3) the best interest regulations for the future Special Interest Adjustment Law (these are the rules which serve as the basis of the present legal interest rates).

The study group will hold monthly meetings and will proceed first with an orderly study of the interest liberalization of fixed deposits of less than 10 million yen. After the data has been gathered, an interim report will be issued. Based on that report, MOF will begin consultations with the Ministry of Posts and Telecommunications [MPT] and the financial community, and should come forward with a concrete plan in several years. The focus will be on whether it is better to simply lower the amount of the deposit required or to manage the interest rate system by adjustments. Moreover, the study of liquid deposit interest will include the best way to deal with fees, since in the past lower ordinary deposit interest rates were set in exchange for lowering bank fees. With regard to the best way to handle future interest rate regulations, the group will discuss what to do with the Special Interest Adjustment Law, which is presently falling apart, with full liberalization in the offing.

Within MOF, the Banking Bureau claims that as far as direction is concerned, Japan is heading toward full interest liberalization even for small deposits, just as in advanced countries such as the United States and European countries. However, due to problems like the management deterioration of financial institutions that has appeared in the United States and elsewhere, the Banking Bureau is considering policies to deal with such a problem, and wants the best approach toward liberalization to be determined within 1 to 2 years.

Japanese savings deposit interest liberalization began with two studies in 1984: "The Japanese-U.S. Yen-Dollar Committee Report" and "The Present Condition and Future Prospects for Financial Liberalization and the Internationalization of the Yen." Liberalization of large fixed savings deposit interest began in October 1985. At present, this liberalization covers deposits of more than 30 million yen. This will change to 10 million yen by this fall.

The starting point in the liberalization of small savings deposit interest was the "Financial Issues Study Group Report" of May 1986. At the end of bitter negotiations between the MOF and the MPT over "total balance," the MPT and private banks both introduced small MMC's of identical content. This agreement has led to 6-month and 1-year instruments to be issued from this June and 3-month, 2-year, and 3-year instruments to be issued in October. The minimum deposit is scheduled to drop to less than 1 million yen, by way of orderly administrative measures, to be introduced from next April.

#### \* MOF Targets Off-Balance Transactions

41060075 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 15 Feb 89 p 1—FOR OFFICIAL USE  
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[Text] The Ministry of Finance [MOF] is pressing for the disclosure (of company information) of off-balance transactions which companies and banks do not include on their balance sheets. Off-balance transactions, such as foreign exchange futures transactions, are rapidly increasing, but there is no obligation for public disclosure now and it is feared that if it continues, cases will increase where companies and banks expand such transactions and generate huge losses without the knowledge of stockholders or customers. By requiring disclosure, the Finance Ministry is trying to enable investors and depositors to accurately grasp the true financial state of companies and financial institutions, as well as to curb excessive speculation by companies. It is believed that obligatory public disclosure will begin, at the earliest, with the settlement term starting in April next year.

#### Investor Protection Also the Aim

The Finance Ministry is considering disclosure of the actual state of futures transactions such as foreign exchange, bonds, and stock price indexes and currency option transactions (transacting for the power to buy and sell within a fixed period at prices set beforehand). They are also studying public disclosure of transaction balances such as stock price index option transactions beginning now, and interest futures handled by the Tokyo Money Futures Exchange scheduled to start in June. The Company Accounts Inquiry Commission (Finance Ministry advisory agency) will discuss specific public disclosure methods beginning in March.

In the United States, there is the hedge accounting system (when futures transactions are employed holding in kind, the in kind assets are reevaluated at the end of the period at the futures price) for public disclosure of off-balance transactions.

However, there are also cases of futures transactions that are used as speculation without holding in kind and it is said that "the U.S. style of reevaluation accounting is by no means perfect." (major accounting corporation) The need to introduce hedge accounting is being studied by



the Inquiry Commission, but many have the opinion that "promoting disclosure of the remaining balance of off-balance transactions is more effective."

The leading proposal for public disclosure is for companies to record, as a footnote in the margin of the balance sheet, the balance of sales and purchases in bond futures transactions, as well as the extent of spot bonds actually possessed. The Inquiry Commission is also studying whether detailed public disclosure of transaction price and quantity and of latent profits and losses will be required.

Currently, public disclosure of off-balance transactions is only very limited, such as the bill discount amount and obligation suretyship. In 1987, an incident occurred in which Tateho Chemical Industries failed in an overextended bond futures transaction, suddenly produced a loss exceeding 20 billion yen and the stock price plummeted. It is believed at the Finance Ministry that obligatory public disclosure of such futures transactions will help protect investors and depositors besides curbing excessive speculation.

**\* Government To Issue 3-Month Bonds**

41060055 Tokyo ASAHI SHIMBUN in Japanese 1 Feb 89 p 9—FOR OFFICIAL USE ONLY

[Text] On 31 January the Ministry of Finance finalized a plan to issue new short-term government bonds (TB's) with a 3-month maturity period, beginning in fiscal 1989. TB's are currently issued only for 6 months. The decision was made in response to requests from foreign governments, including the United States, for the issuance of shorter term government bonds as a means for them to own assets in yen. The details have not yet been decided, but it is expected that during fiscal 1989, combinations of 3-month and 6-month bonds will be issued and redeemed every month. As a result, the TB market is expected to be further reorganized, and the Bank of Japan will gain a new means of monetary adjustment using TB's.

Seven types of government bonds are currently issued: the interest-bearing super-long-term government bond (term: 20 years), the interest-bearing long-term government bond (10 years), the medium-term discount government bond (5 years), the interest-bearing medium-term government bonds (4 years, 3 years, 2 years), and the short-term discount government bond (6-month TB). Among these, the TB market has been considered to have smaller price fluctuations and greater liquidity than longer term government bonds; for this reason, foreign governments, including the United States, have requested that it be expanded. The Japanese-U.S. Yen-Dollar Committee Report of May 1984, too, recognized it as "a task to be examined."

Also, at the general assembly of the International Monetary Fund (IMF)/World Bank last September, Japan advocated "diversification of reserve currencies." The

expansion and reorganization of the short-term government bond market has been recognized as an urgent task, then, in order to encourage foreign governments to own yen assets as foreign currency reserves. The Ministry of Finance, therefore, decided to substantially expand the amount of short-term government bonds to be issued—up to 4,081.6 billion yen in fiscal 1989, which is twice the amount for the previous fiscal year. been issued only four times a year—in August, September, February, and March—beginning next fiscal year the ministry will issue and redeem every month combinations of 6-month and 3-month bonds. The ministry is considering dividing the total issuance of 4 trillion yen into two sets of 2 trillion yen, and issuing 6-month bonds four times a year and 3-month bonds eight times a year.

At present, there are very few 6-month bonds in the short-term money market in Japan; 3-month bonds, such as drafts, CD's [certificates of deposit], and commercial paper (CP) are increasing; and for arbitration of interests, too, 3-month bonds are playing an important role. For this reason, there is a possibility that the 3-month TB market will become larger than the 6-month TB market, since it is easier for an investor to buy the 3-month TB by watching interest rates. If that happens, the ministry plans to reduce the issuance of 6-month bonds and expand short-term government bonds mainly by increasing 3-month bonds.

Furthermore, financial organizations now own few TB's, but if the bonds' maturity term is shortened and they gain more liquidity, thus increasing their value, it is expected that those financial organizations will begin buying more aggressively. Therefore, a new path will be opened for the TB market to be used as a new open market means for monetary adjustment, a development long awaited by the Bank of Japan. Monetary adjustment by the Bank of Japan will then more closely resemble that of the United States, where the TB market is the main target of operation.

The United States has been persistently requesting the reorganization of Japanese bond markets since the Japanese-U.S. Yen-Dollar Committee meeting; the Ministry of Finance thinks that the ministry has sufficiently responded to the "homework" assigned by the United States, at least for a while, by having decided to move 40 percent of the long-term government bonds (maturity period: 10 years) to the competitive bidding system beginning in April and to reorganize and expand the short-term government bonds as well.

**Social, Educational, Cultural Aspects Lag West**

OW3003093089 Tokyo THE JAPAN TIMES  
in English 29 Mar 89 p 3—FOR OFFICIAL USE ONLY

[Text] Japan is economically compatible with major Western countries, but its social, educational and cultural aspects lag far behind, according to a government report.

The 1989 New Social Indicator (NSI) showed that in terms of per capita income, because of the yen's appreciation, Japanese living standards appear much improved. But inadequate amenities and living space, for example, have not improved daily life.

The Japanese people's awareness of wide disparities in their income and property ownership is heightening, the report by the Economic Planning Agency (EPA) said.

The EPA explained that the NSI is a living standards indicator to measure factors that cannot be gauged by such economic indicators as the gross national product figures.

In the NSI, living standards are divided into eight categories, including health, economic stability, and regional and social activities. Then, using an index with 50 as the average, Japan's living standard is compared with five nations: the United States, West Germany, France, Britain and Sweden.

#### Good Home Life

Japan attained the top positions this year in health, registering 58.0; economic stability, registering 57.4; and home life, 55.0. In last year's survey Japan held the top positions only in health and home life.

Sweden this year ranked top in environment and safety, working hours, learning and cultural activities.

The report ascribed better health in Japan to a boost in the average life span and lower infant mortality, while the better home life rating derived from a comparatively lower divorce ratio and relatively fewer old people living alone.

Conversely, Japan's rating for regional and social activities, and learning and cultural activities remained at a low ebb. At 49.0, learning was just below the average, while cultural activities were pegged at 48.6.

#### Introverted

Young Japanese men and women infrequently participate in social activities, the report said, and there are fewer per capita public libraries or books published in Japan.

Even in sectors whose indexes were above average, some individual indices were lower, the report said.

For instance, the floor space of a new dwelling in Japan averaged 81.3 sq. meters, far below the average 102.2 sq. meters in the five other nations.

Also, Japanese work an average of 360 hours more annually, as compared with the combined average of the five other countries.

In the environmental and safety category, extensive sewer systems have been introduced in only 39 percent of Japan, compared with an average of 82 percent in the other five nations, the report showed.

#### \* MOL Index Indicates Growing Labor Shortage

WA2303000220 Tokyo NIHON KEIZAI SHIMBUN  
in Japanese 11 Mar 89 p 3—FOR OFFICIAL USE  
ONLY

[Text] Labor shortages in the manufacturing industry have continued to grow. According to the February "Survey of Labor Economic Trends" issued by the Ministry of Labor [MOL] on 10 March, the estimated diffusion index [DI] of the surplus or shortage of regular workers (a figure obtained by subtracting the percentage of businesses reporting an "excess" of regular workers employed from the percentage of businesses reporting a "shortage") for the October-December period last year exceeded the previous period (July-September) by 5 points, reaching 39. As usual, there were many enterprises wanting to employ more regular workers, and the MOL believes that the signs of a labor supply-demand strain will increase in the future.

The "Survey of Labor Economic Trends" is conducted four times a year among approximately 4,100 manufacturing, wholesale and retail, food and drink, and service enterprises employing 30 or more regular workers. For the service industry, which stands out among the survey's subject areas as revealing a labor supply-demand strain, the DI rose 6 points compared to the previous period to 56. Classified by occupation, the shortage of specialists, engineers, and technicians is increasing.

#### Editorial Discusses Agricultural Reforms

OW1704062989 Tokyo MAINICHI DAILY NEWS  
in English 15 Apr 89 p 2—FOR OFFICIAL USE  
ONLY

[Editorial: "Agricultural Reforms"]

[Text] In day-to-day economics, changes are often made that go unnoticed, but upon later reflection, it is found that the changes went beyond the imagination. This holds true for the structural and environmental changes involving Japan's agriculture.

This year, the White Paper on Agriculture places emphasis on and analyzes Japan's agriculture in the face of internationalization. It points out the manner in which qualitative changes, both domestic and foreign, are taking place in the structure and environment of agriculture.

Noticeable in the foreign phase is the sharp increase in the import of agricultural products. Against the backdrop of the high yen and increasing differences in the foreign and domestic prices of farm products, such imports are pouring in as though a dam has burst.

In the past, the import of agricultural products centered on wheat, feed and other raw materials. At present, the weight of vegetables, fruits, fresh fish, meat and corn is rising.

Because of this, those engaged in the food industry, who have made use of domestic materials up to now, are facing stiff competition from imported foods, and some of them have set up factories abroad in the pursuit of cheaper materials.

On the other hand, in the domestic phase, the number of people aged between 16 and 60, who would be expected to shoulder the future burden of Japan's agriculture, is decreasing. In 1988, farming households decreased by 355,000, a 6.6 percent decline in comparison with the previous year.

In the employment structure of agriculture as a whole, older persons above the age of 60 account for 46 percent of farmers. The average age of those engaged in agriculture is 55.6, about 14 or 15 years older than the average age in other industries.

This is a scary situation when it is considered that Japan's food self-sufficiency has fallen to the 49 percent level.

With this in mind, this year's White Paper includes some drastic proposals. For example, it urges that while restudying a long-range method of rice control and maintaining a balance between supply and demand, the introduction of market principles should be carried out further.

Noticeable too is the fact that certain demands have been made on agricultural cooperatives for the first time. They are called upon to achieve low cost agricultural production and to operate the cooperatives in a manner able to meet the diversified needs of their members.

These demands are logical at a time when agricultural cooperatives are encountering increasing criticism of its leadership over the operation of farms. This is almost startling when the past relationship between the Ministry of Agriculture, Forestry and Fisheries and the agricultural cooperatives is considered. It testifies to the real feeling of crisis that the ministry is undergoing.

The White Paper's structural analysis and proposals are commendable. The question is to what extent the proposals will be actually reflected in the administrative phase.

If nothing is done, Japan's agriculture will continue to weaken. Despite the indisputable need to reduce the difference between domestic and foreign prices, and to lower the cost because of the strengthening of Japan's international competitive power, this year's prices of beef and raw and processed milk remain unchanged.

In order to strengthen the foundation of Japan's agriculture, the present small-scale production structure should be replaced by a system that would smooth the way for high productivity.

This can be done only by the lowering of prices through the introduction of market principles and training, to enable farming households to stand on their own two feet. The present protective system will only lead to the gradual weakening of Japan's agriculture.

This may be painful for a time, but unless these measures are carried out, the future of Japan's agriculture will be grim.



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